MONTGOMERY COUNTY
MARYLAND

Comprehensive Annual Financial Report

Fiscal Year 2008

July 1, 2007 - June 30, 2008
Rockville, Maryland

MONTGOMERY COUNTY
MARYLAND

Comprehensive Annual Financial Report

Prepared by the
DEPARTMENT OF FINANCE

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Fiscal Year 2008

July 1, 2007 - June 30, 2008

Montgomery County, Maryland
COMPREHENSIVE ANNUAL FINANCIAL REPORT
Fiscal Year Ended June 30, 2008
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FINANCIAL SECTION

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditor's Report

The Honorable County Council
of Montgomery County, Maryland

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Montgomery County, Maryland (the County) as of and for the year ended June 30, 2008 which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the component unit financial statements of Montgomery Community College, Montgomery County Revenue Authority and Bethesda Urban Partnership, Inc. which represent 100% of the assets, net assets and revenues of the nonmajor component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the above mentioned component units, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparison for the general fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2008 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 22 and the schedule of funding progress on page 113 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The introductory section, combining and individual fund financial statements and supplementary schedules listed as supplementary data, and statistical section, as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and supplementary schedules, listed as supplementary data has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory section and statistical tables listed in the table of contents have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Clifton Gunderson LLP

Baltimore, Maryland
December 22, 2008

Management's Discussion and Analysis

INTRODUCTION

This discussion and analysis (MD&A) is designed to a) assist readers in understanding Montgomery County, Maryland's (the County's) basic financial statements, the relationship of different types of statements, and the significant differences in the information they provide; b) assist the reader in focusing on significant financial issues; c) provide an overview of the County's current financial activity; d) identify changes in the County's financial position, i.e., its ability to address the next and subsequent years' financial needs, based on currently known facts; e) identify any material deviations from the approved budget for the fiscal year, and f) identify individual fund issues or concerns. The MD&A is best understood if read in conjunction with the Transmittal Letter and the County's basic financial statements.

FINANCIAL HIGHLIGHTS

- The government-wide assets of the County exceeded its liabilities at the close of FY08 by $1,912.2 million. That amount is net of a $578 million unrestricted deficit. The deficit occurs because the County issues debt to fund construction costs for Montgomery County Public Schools (MCPS) and Montgomery College (MCC), two of its component units, and for Maryland-National Capital Park and Planning Commission (M-NCPPC), a joint venture. Debt outstanding for these entities amounted to $1,023 million at June 30, 2008. Absent the effect of this relationship, the County would have reported government-wide positive unrestricted net assets of $445 million.

- The County's total government-wide net assets decreased by $252.4 million.

- As of the close of FY08, the County's governmental funds reported combined ending fund balances of $582.6 million, a decrease of $207.3 million over the prior year's ending fund balances. Of the total ending fund balances, $363.8 million is available for spending at the County's discretion.

- At the end of FY08, unreserved fund balance for the General Fund was $164.3 million, or 6.6 percent of total General Fund expenditures.

- The County's government-wide long-term debt increased by $66.5 million during FY08. The key factors in this increase are:
    - The issuance of $70.3 million in general obligation (GO) refunding bonds, used to refund $72.8 million in GO bonds previously issued at higher rates;
    - The issuance of $150 million in bond anticipation notes (BANs) and $33.6 million in certificates of participation; and
    - The retirement of $143.4 million in GO bonds.

- During FY08, the County implemented GASB Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Implementing these statements required reporting accrual basis information related to retiree benefits, which previously were reported on a pay-as-you-go basis. The County has established a fiduciary fund, the Retiree Health Benefits Trust, to account for and report on its postemployment healthcare benefits activities. Because the County is phasing into full funding of the actuarially calculated contribution for these benefits, which contribution must be recorded as an expense, a liability of $58.6 million has been recognized on the County's Statement of Net Assets. For more information, see Note IV-G of the Notes to Financial Statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

The County's financial statements focus on both the County as a whole (government-wide), and on the major individual funds. "Funds" are resources segregated for the purposes of implementing specific activities or achieving certain objectives in accordance with special regulations, restrictions, or limitations. Both the government-wide and fund perspectives allow users to address relevant questions and understand changes in financial conditions. The structure of the financial statements is presented below. This MD&A is intended to be an introduction to Montgomery County's basic financial statements. Montgomery County's basic financial statements comprise three components, including government-wide financial statements, fund financial statements, and notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Organization and Flow of Financial Section Information

Independent Auditors' Report
Provides the opinion of the Independent Auditors on the fair presentation of the basic financial statements.

Management's Discussion and Analysis
This supplementary information is required for state and local government financial statements, and is intended to provide a narrative introduction, overview, and analysis.
Pages 3 to 22.

Government-Wide Financial Statements
Provides information on governmental and business-type activities of the primary government.
Pages 24 to 27.

Fund Financial Statements
Provides information on the financial position of specific funds of the primary government.
Pages 28 to 40.

Component Units
Provides information on the County's component units.
Pages 41 to 42.

Notes to Financial Statements
Provides a summary of significant accounting policies and related disclosures.
Pages 43 to 113

Government-Wide Financial Statements

The government-wide financial statements are designed to be corporate-like in that all governmental and business-type activities are reported in columns which add to a total for the primary government. The focus of the statement of net assets is designed to provide bottom line results for the County's governmental and business-type activities. This statement reports governmental funds' current financial resources (i.e., short-term spendable resources) with capital assets and long-term obligations. All infrastructure assets built or purchased by the County, and infrastructure dedicated by developers since 1970, are included in the accompanying government-wide financial statements. The difference between the County's assets and liabilities is reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial health of the County is improving or deteriorating. Additionally, nonfinancial factors, such as a change in the County's property tax base or the condition of County facilities and infrastructure, should be considered to assess the overall health of the County.

The statement of activities is focused on both the gross and net cost of various functions, including governmental and business-type activities. This is intended to summarize and simplify the users' analysis of the cost of various governmental services and/or subsidy to various business-type activities. The governmental activities included reflect the County's basic services, including general government, public safety, public works and transportation, health and human services, and others. Taxes, including the property and income tax, license and permit fees, intergovernmental revenues, charges for services, fines and forfeitures, and investment income finance the majority of these services. The business-type activities reflect private sector-type operations, including: liquor control, solid waste activities, four parking lot districts, permitting services, and community use of public facilities, where fees for services or products are required or designed to recover the cost of operation, including depreciation.

The government-wide financial statements include not only the County itself (known as the Primary Government), but also legally separate entities known as Component Units. Component units, which are other governmental units over which the County Council can exercise influence and/or may be obligated to provide financial subsidy, are presented as a separate column in the government-wide statements and as individual activities in the basic and fund financial statements. The County has five component units – Montgomery County Public Schools (MCPS), Housing Opportunities Commission (HOC), Montgomery College (MCC), Montgomery County Revenue Authority (MCRA), and Bethesda Urban Partnership, Inc. (BUPI).

Fund Financial Statements

Traditional users of governmental financial statements may find the fund financial statement presentation more familiar. Funds are accounting devices that the County uses to keep track of specific sources of funding and spending for particular purposes. The County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. In the fund financial statements, the focus is on major funds rather than the County as a whole. Major funds are separately reported while all others are combined into a single, aggregated presentation. The County has the following three types of funds:

<u>Governmental Funds</u> – Most of the County's basic services are included in governmental funds, which focus on (1) cash and other financial assets that can readily be converted to cash and how they flow in and out, and (2) the balances remaining at year-end that are available for spending. The governmental funds financial statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. Because this information does not encompass the additional long-term focus of the government-wide financial statements, a reconciliation of the fund financial statements to the government-wide financial statements is presented immediately after the fund financial statements. For example, the fund financial statements will reflect bond proceeds and interfund transfers as other financing sources, as well as capital expenditures and bond principal payments as expenditures. The reconciliation will reflect the elimination of these transactions and will incorporate the capital assets and long-term obligations (bonds and others) that are presented in the governmental activities column (in the government-wide statements). The County has three major governmental funds – General, Debt Service, and Capital Projects – and 17 nonmajor funds (16 special revenue funds and one permanent fund).

<u>Proprietary Funds</u> – Proprietary funds, which consist of enterprise funds and internal service funds, are used to account for operations that are financed and operated in a manner similar to private business enterprises in which costs are recovered primarily through user charges. Proprietary fund financial statements, like the government-wide financial statements, provide both long-term and short-term financial information. The fund financial statements provide more detail and additional information, such as cash flows, for the County's enterprise funds. The County has three major enterprise funds – liquor control, solid waste activities, and parking lot districts – and two nonmajor funds. The internal service funds, which are presented in a single, aggregated column in the proprietary fund financial statements, are used to account for the provision of liability and property insurance coverage, employee health benefits, motor pool services, and central duplicating services, to County departments on a cost reimbursement basis. Although both the fund and government-wide financial statements provide a long-term and

short-term focus, reconciliations between these two sets of statements are still required. This is due to the fact that the excess income/loss for the internal service funds has been redistributed to the customers, including business-type activities; such reconciliations are reflected on the bottom of the proprietary fund financial statements.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's programs. The County's fiduciary funds consist of pension and other employee benefit trusts, an investment trust, private purpose trusts, and agency funds.

FINANCIAL ANALYSIS OF MONTGOMERY COUNTY, MARYLAND: GOVERNMENT-WIDE FINANCIAL STATEMENTS

A comparative analysis of government-wide financial information is presented below.

Statement of Net Assets

The following presents a summary of the Statements of Net Assets for the County as of June 30, 2008 and 2007:

Summary of Net Assets *
June 30, 2008 and 2007

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Assets:						
Current and other assets	$ 1,383,926,199	$ 1,630,704,598	$ 175,201,707	$ 185,718,501	$ 1,559,127,906	$ 1,816,423,099
Capital assets, net	2,716,099,259	2,627,754,382	221,507,629	224,091,918	2,937,606,888	2,851,846,300
Total Assets	4,100,025,458	4,258,458,980	396,709,336	409,810,419	4,496,734,794	4,668,269,399
Liabilities:						
Long-term liabilities outstanding	2,087,553,294	2,000,934,120	83,092,973	103,188,517	2,170,646,267	2,104,122,637
Other liabilities	379,263,571	359,501,357	34,637,625	40,022,123	413,901,196	399,523,480
Total Liabilities	2,466,816,865	2,360,435,477	117,730,598	143,210,640	2,584,547,463	2,503,646,117
Net assets:						
Invested in capital assets, net of related debt	1,875,327,937	1,880,672,363	166,059,652	160,807,324	2,003,119,670	1,999,920,988
Restricted	410,457,623	440,714,792	76,590,751	72,370,254	487,048,374	513,085,046
Unrestricted (deficit)	(652,576,967)	(423,363,652)	36,328,335	33,422,201	(577,980,713)	(348,382,752)
Total Net Assets	$ 1,633,208,593	$ 1,898,023,503	$ 278,978,738	$ 266,599,779	$ 1,912,187,331	$ 2,164,623,282

* Primary Government

The County's current and other assets decreased by $257.3 million or 14.2 percent from FY07. The County's assets exceeded its liabilities at the close of FY08 by $1,912.2 million. By far the largest portion of the County's net assets reflects its investment in capital assets (e.g., land, buildings, improvements, furniture and equipment, infrastructure), less any related outstanding debt used to construct or acquire those assets. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities. Governmental capital lease obligations of $38.3 million, related to business-type activity capital assets, are classified as a component of unrestricted net assets for governmental activities purposes, but reclassified to invested in capital, net of related debt, for total primary government purposes.

It is also important to note that although counties in the state of Maryland issue debt for the construction of schools, those school buildings are owned by each county's Board of Education. The County also funds projects for MCC and M-NCPPC. Therefore, while the County's financial statements include this outstanding debt, they do not include the capital assets funded by the debt. Debt outstanding for these entities amounted to $1,023 million at June 30, 2008. Absent the effect of this relationship, the County would have reported government-wide positive unrestricted net assets of $445 million. An additional portion of the County's net assets ($487 million or 25.5 percent) represents resources that are subject to restrictions on how they may be used. This amount includes $119.6 million in net assets restricted for revenue stabilization for periods of economic downturn.

The County's total net assets decreased by $252.4 million for FY08 or 11.6 percent over FY07. This decline largely reflects flat general revenue in both property and county income taxes and overall increased expenses.

Statement of Activities

The following table summarizes the County's change in net assets for the years ended June 30, 2008 and 2007:

Summary of Changes in Net Assets *
For the Fiscal Years Ended June 30, 2008 and 2007

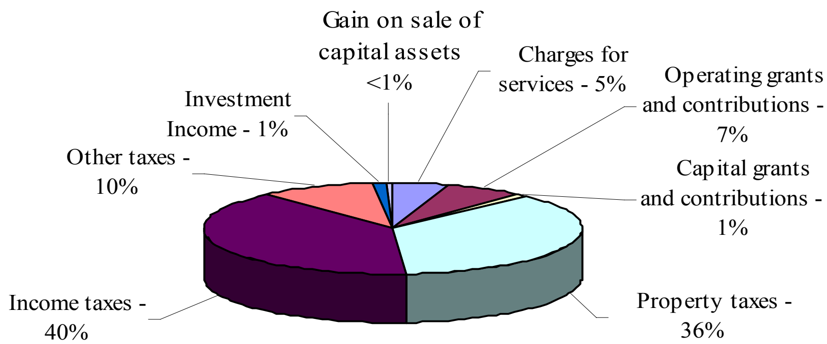
	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
REVENUES						
Program Revenues:						
Charges for services	$ 147,895,246	$ 134,172,562	$ 378,413,979	$ 360,435,582	$ 526,309,225	$ 494,608,144
Operating grants and contributions	216,393,101	231,568,832	10,000	11,135	216,403,101	231,579,967
Capital grants and contributions	33,306,804	51,450,977	-	-	33,306,804	51,450,977
General revenues:						
Property taxes	1,146,965,583	1,126,632,925	11,266,747	9,562,592	1,158,232,330	1,136,195,517
Income taxes	1,246,939,067	1,388,927,139	-	-	1,246,939,067	1,388,927,139
Other taxes	313,132,911	352,310,153	-	-	313,132,911	352,310,153
Investment income	42,586,707	42,003,532	7,330,179	8,339,098	49,916,886	50,342,630
Gain on sale of capital assets	13,309,573	6,209,594	-	34,637	13,309,573	6,244,231
Total Revenues	3,160,528,992	3,333,275,714	397,020,905	378,383,044	3,557,549,897	3,711,658,758
EXPENSES						
Governmental Activities:						
General government	304,526,806	274,005,357	-	-	304,526,806	274,005,357
Public safety	601,156,598	529,748,046	-	-	601,156,598	529,748,046
Public works and transportation	233,193,597	210,395,916	-	-	233,193,597	210,395,916
Health and human services	286,907,329	252,066,273	-	-	286,907,329	252,066,273
Culture and recreation	118,017,417	103,765,006	-	-	118,017,417	103,765,006
Community development and housing	19,134,520	18,213,040	-	-	19,134,520	18,213,040
Environment	14,967,339	12,962,711	-	-	14,967,339	12,962,711
Education	1,783,953,133	1,669,681,121	-	-	1,783,953,133	1,669,681,121
Interest on long-term debt	95,931,334	81,262,618	-	-	95,931,334	81,262,618
Business-type Activities:						
Liquor control	-	-	190,742,139	180,243,618	190,742,139	180,243,618
Solid waste activities	-	-	98,166,937	103,455,706	98,166,937	103,455,706
Parking lot districts	-	-	27,854,499	26,622,097	27,854,499	26,622,097
Permitting services	-	-	26,977,767	23,463,486	26,977,767	23,463,486
Community use of public facilities	-	-	8,456,433	7,657,662	8,456,433	7,657,662
Total Expenses	3,457,788,073	3,152,100,088	352,197,775	341,442,569	3,809,985,848	3,493,542,657
Increase / (decrease) in Net Assets Before Transfers	(297,259,081)	181,175,626	44,823,130	36,940,475	(252,435,951)	218,116,101
Transfers	32,444,171	34,073,566	(32,444,171)	(34,073,566)	-	-
Increase / (decrease) in Net Assets	(264,814,910)	215,249,192	12,378,959	2,866,909	(252,435,951)	218,116,101
Net Assets, beginning of year	1,898,023,503	1,682,774,311	266,599,779	263,732,870	2,164,623,282	1,946,507,181
Net Assets, end of year	$ 1,633,208,593	$ 1,898,023,503	$ 278,978,738	$ 266,599,779	$ 1,912,187,331	$ 2,164,623,282

* Primary Government

Governmental Activities

Revenues for the County's governmental activities were $3,160.5 million for FY08. Sources of revenue are comprised of the following items:

Revenues by Source - Governmental Activities
For the Fiscal Year Ended June 30, 2008



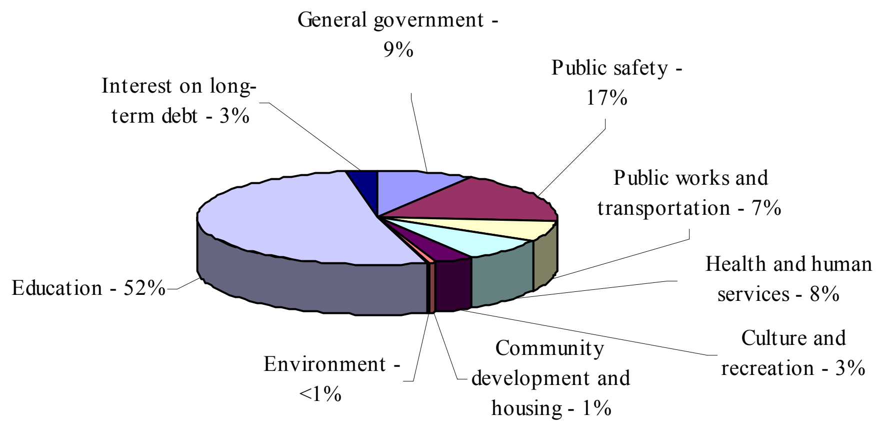
- Taxes constitute the largest source of County revenues, amounting to $2,707 million for FY08. Property and local income tax combined comprise 75.7 percent of all County revenues. Each County in Maryland sets its income tax rate within parameters established by the State. The local income tax rate was 3.2 percent of the State taxable income for calendar years 2008 and 2007. There is no local sales tax in the State of Maryland.

- Operating grants and contributions represent primarily grants from the Federal and State governments and State aid programs. The majority of such revenues are received to fund the following County programs: health and human services ($102.7 million or 47.5 percent), public works and transportation ($65.5 million or 30.3 percent) and public safety ($29.4 million or 13.6 percent).

A more detailed discussion of the County's revenue results for FY08 as compared to what was budgeted can be found in the General Fund Budgetary Highlights section of this MD&A.

The cost of all governmental activities for FY08 was $3,457.8 million. As the chart below indicates, education constitutes the County's largest program and highest priority; education expenses totaled $1.8 billion. Public safety expenses totaled $601.2 million, general government services totaled $304.5 million, and health and human services, the fourth largest expense for the County, totaled $286.9 million.

Expenses by Function - Governmental Activities
For the Fiscal Year Ended June 30, 2008



The following table presents the cost and program revenues of each of the County's six largest programs – education, public safety, general government, health and human services, public works and transportation, and culture and recreation – as well as each program's net cost (total cost less fees generated by the activities and program-specific intergovernmental aid).

Net Cost of County's Governmental Activities
For the Fiscal Years Ended June 30, 2008 and 2007

	Expenses		Revenues		Net Cost of Services	
	2008	2007	2008	2007	2008	2007
Education	$ 1,783,953,133	$ 1,669,681,121	$ -	$ -	$ 1,783,953,133	$ 1,669,681,121
Public safety	601,156,598	529,748,046	64,907,226	60,750,807	536,249,372	468,997,239
General government	304,526,806	274,005,357	62,807,609	67,933,964	241,719,197	206,071,393
Health and human services	286,907,329	252,066,273	109,198,818	117,352,426	177,708,511	134,713,847
Public works and transportation	233,193,597	210,395,916	105,746,506	113,815,429	127,447,091	96,580,487
Culture and recreation	118,017,417	103,765,006	36,008,463	42,982,703	82,008,954	60,782,303
Other	130,033,193	112,438,369	18,926,529	14,357,042	111,106,664	98,081,327
Total	$ 3,457,788,073	$ 3,152,100,088	$ 397,595,151	$ 417,192,371	$ 3,060,192,922	$ 2,734,907,717

Of the total cost of governmental activities of $3,457.8 million, $397.6 million was paid by those who directly benefited from the programs ($147.9 million) and other governments and organizations that subsidized certain programs with operating and capital grants and contributions ($249.7 million). Of the $3,060.2 million net cost of services, our taxpayers paid for these activities through County taxes which totaled $2,707 million; also available to contribute towards such net costs were investment income and gain on sale of capital assets.

Highlights of significant changes in governmental activities revenue and expenses compared to last year are:

- General Government includes:
  - $2.5 million increase in expenses for the acceleration of the presidential primary election and three special elections;
  - $8.4 million increase in expenses for snow removal operations and wind and rain storm clean-up; and

- Decrease in licenses and permits revenue of 15% or about $1.5 million primarily due to the reorganization of the Board of License Commissioners to become a division within the Department of Liquor Control.

- Public Safety includes:
  - $1.5 million reduction in intergovernmental (federal) reimbursements due to a decrease in disaster deployments;
  - Additional $1.7 million in charges for services and licenses and permits due to the expansion of the Fire Code Inspection Section; and
  - $10 million increase in fines and forfeitures for first full operational year of the Speed Camera Program.
- Public Works and Transportation includes:
  - Additional $3.5 million for the enhancement of quality, reliability and safety of Ride On and Metrobus services. Programs and services were expanded for students, senior citizens and people with disabilities; and
  - Federal transportation capital grants for the Silver Spring Transit Center were lower than FY07 by approximately $3.5 million.
- Culture and Recreation includes:
  - Glen Echo Park had no grants in FY08 compared to $1.7 million for FY07; and
  - $6.2 million reduction of park land acquisition and legacy open space grants compared to FY07.

<u>Business-type Activities</u>

Highlights of the County's business-type activities for FY08 are as follows:

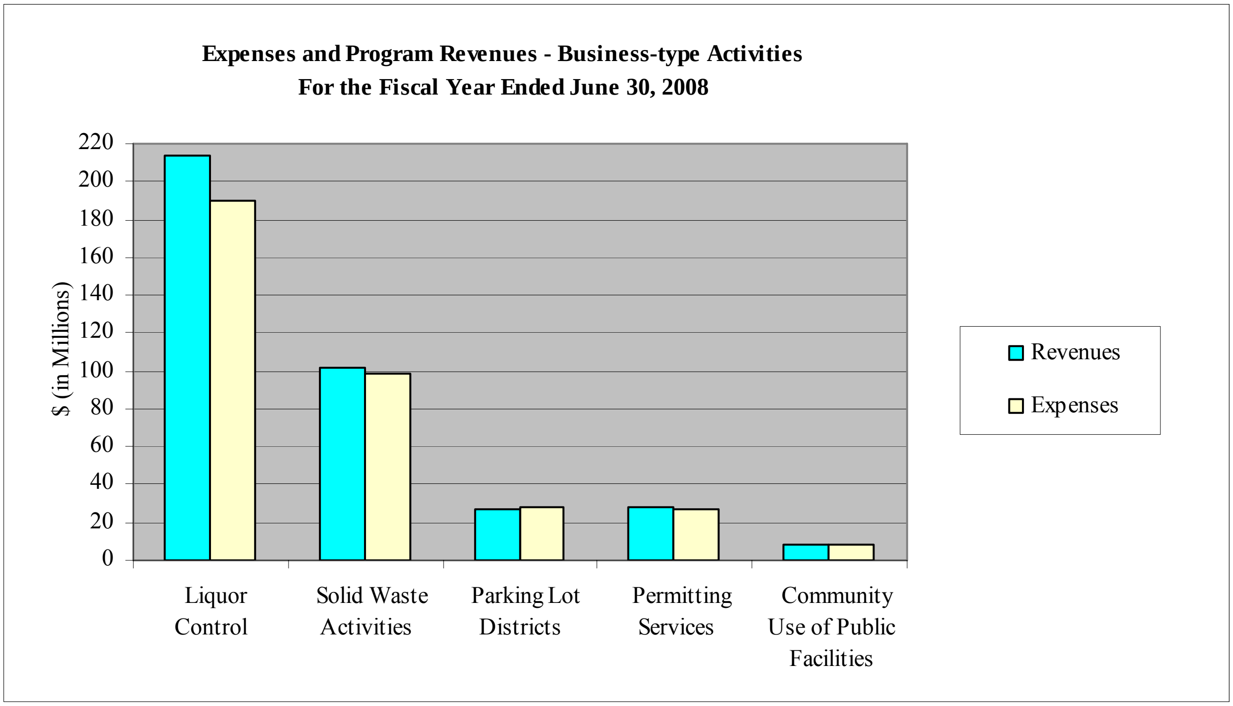
- Business-type activities experienced an increase in net assets of $12.4 million for FY08. However, this amount is reported after total net transfers out of $32.4 million. The most significant components of this amount include:
  - $8.6 million in transfers of parking fees from the Parking Lot Districts to the Mass Transit Fund and Urban Districts; and
  - $22.2 million in FY08 Liquor Enterprise Fund profits transferred to the General Fund. Under State law, the Montgomery County Department of Liquor Control has a monopoly on the distribution of alcoholic beverages, and the sale of spirits, within the County.

- Charges for services to users comprise 95.3 percent of revenues, with $213.7 million (56.5 percent of charges for services revenue) attributable to liquor control operations and $102.1 million (27 percent) attributable to solid waste activities. The remaining charges for services are generated from operations relating to parking lot districts, permitting services, and community use of public facilities.

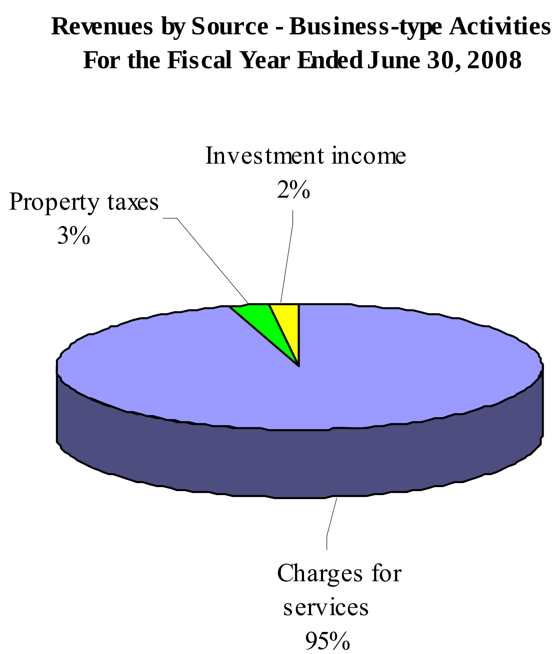
- Parking lot district property taxes of $11.3 million is the second largest source of revenue at only 2.8 percent.

- Investment income of $7.3 million reflects a decrease of $1 million or 12.1 percent, primarily because of the decreases in interest rates and pooled cash and investments during the year.

Business-type activities are shown below comparing costs to revenues generated by related services:



Business-type revenues by source are comprised of the following:



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the County's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is valuable in assessing the County's financing requirements. In particular, the unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of FY08, the County's governmental funds reported combined ending fund balances of $582.6 million, a decrease of $207.3 million from the end of FY07. Of the total ending fund balances, $363.8 million constitutes the unreserved fund balance, which is available for spending at the County's discretion. The remainder of the fund balances of $218.8 million is unavailable for new spending because it has been reserved for prior period commitments and legal restrictions.

The General Fund is the primary operating fund of the County. At the end of FY08, unreserved and undesignated fund balance of the General Fund was $83.6 million, while total fund balance was $172.8 million. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved and undesignated fund balance and total fund balance to total fund expenditures. Unreserved and undesignated fund balance represents 3.1 percent of the total General Fund expenditures and transfers out, while total fund balance represents 6.2 percent of the same amount.

The fund balance of the County's General Fund decreased by $144 million during FY08, consistent with the budgeted decrease, and primarily due to reduced income and real property transfer and recordation tax revenues.

The Capital Projects Fund has a total fund balance of $36.1 million, a decrease of $109.5 million from the end of FY07. The decrease was primarily due to the use of FY07 bond anticipation note proceeds, resulting in less bond anticipation notes needing to be issued in FY08.

The Debt Service Fund accumulates resources for the payment of general long-term debt principal, interest, and related costs. This fund does not maintain an unreserved fund balance; the reserved fund balance of $3.3 million represents a debt service reserve account.

A more detailed discussion of General Fund revenues can be found in the General Fund Budgetary Highlights section of MD&A. Other factors concerning the finances of the governmental funds are addressed in the discussion of the County's governmental activities.

Proprietary Funds

The County's proprietary funds provide the same type of information found in the government-wide statements, but include more detail.

Unrestricted net assets of the Liquor Fund at the end of FY08 amounted to $32.5 million, and operating income was $24.2 million. After a subsidy transfer to the General Fund of $22.2 million, the fund ended FY08 with an increase in net assets of $3.3 million.

The Solid Waste Activities Fund total net assets amounted to $65 million, of which the unrestricted net assets were $10.9 million. Restricted net assets of $33.8 million are attributable to required debt service reserve accounts for the Solid Waste Disposal revenue bonds.

The Parking Lot Districts Fund increase in net assets amounted to $2.7 million in FY08, resulting in total ending net assets of $169.8 million. Of this amount, $137.9 million (81.2 percent) is invested in capital net of related debt; $7.8 million (4.6 percent) is restricted for debt service on revenue bonds; and $24.1 million (14.2 percent) is unrestricted.

A discussion of enterprise fund long-term debt can be found in the Long-Term Debt section presented later in this MD&A. Other factors concerning the finances of the enterprise funds are addressed in the discussion of the County's business-type activities.

General Fund Budgetary Highlights

Revisions to the General Fund expenditure original budget (excluding transfers) to arrive at the final budget amounted to $15 million, which included County Council approved supplemental and special appropriations and the year-end County Council transfer and County Executive supplemental appropriations. Major components of the appropriation increases include the following:

- $2.5 million for acceleration of the presidential primary election and three special elections;
- $1.6 million in overtime costs for correction officers to backfill employees on long-term military and extended sick leave, and operating expenses related to increases in medical, equipment, and supply costs.;
- $3 million for increased personnel costs as a result of improved recruitment and retention and excess compensatory leave payouts, and operating expenses related to higher fuel costs.;
- $8.4 million for snow removal operations and wind and rain storm clean up; and
- $1.7 million in health related services funded by Social Services State Reimbursement (HB669) revenue.

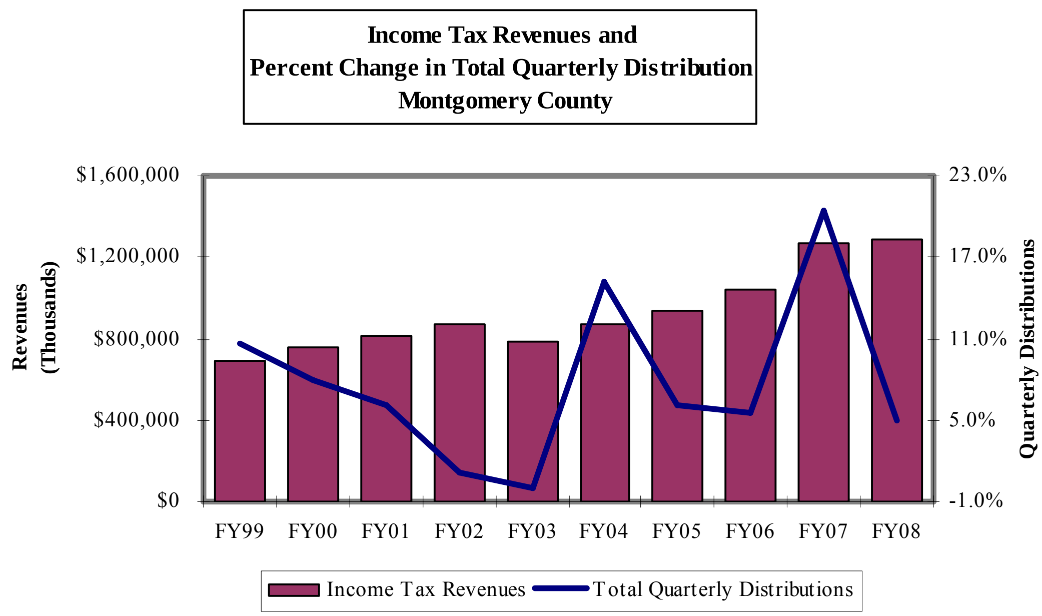
Actual revenues were less than budget amounts by $61.9 million, while actual expenditures and net transfers out were less than final budget by $16.0 million and $56.9 million, respectively. Highlights of the comparison of final budget to actual figures for expenditures and net transfers for the fiscal year-ended June 30, 2008, include the following:

- Actual expenditures of $940.6 million were $16 million less than the final budget, which represents 1.7 percent of the final budget, and is attributable to savings achieved across numerous departments.
- Actual transfers to the Capital Projects Fund and component units for capital purposes were less than budgeted by $52.4 million. This is due both to the multi-year nature of capital projects, and to time delays that can be encountered for certain projects.

A more detailed comparison of final budget to actual figures for revenues is presented below:

Overview - Actual revenues for the General Fund totaled $2,585.7 million and were 2.3 percent below the budget estimate for the fiscal year and 0.5 percent below actual revenues for FY07. The three largest contributors to the variance in dollars between the budget estimate and actual revenues were the transfer tax (↓$40.4 million below the budget estimate), followed by the recordation tax (↓$17.8 million below the budget), and finally, the fuel and energy tax (↓$1.7 million below the estimate). Revenues from consumption/excise taxes which include fuel/energy, telephone, hotel/motel, and admissions taxes, were $168.7 million in FY08. That amount was $2.3 million or 1.4 percent below the budget estimate. Investment income was approximately $6.1 million below the budget estimate. Licenses and permits (↑6.5%) and charges for services (↓2.6%) came in below budget estimates. Intergovernmental revenues were 1.6 percent below the budget estimate. Such a decrease was attributed to federal reimbursements which came in 4.4 percent below the budget estimate, and State reimbursements which were 1.1 percent below the budget estimate. Other intergovernmental revenues, which represent only 0.1 percent of total intergovernmental revenues, came in 2.8 percent above the budget estimate.

Income Taxes - The largest revenue source for the General Fund is the County income tax. Revenues from the income tax were $1,291.3 million and represented 54.0 percent of actual tax revenues and 49.9 percent of total actual revenues in FY08. Income tax receipts became the majority source of tax revenues in the General Fund when it surpassed the property tax in size in FY99. The dramatic shift in the reliance on the income tax as a major source of revenue can be attributed to two factors: the expansion of the employment base in the County and growth in capital gains. With a Standard & Poor's 500 index increasing 13.6 percent in calendar year (CY) 2007, 3.0 percent in CY2006, 9.0 percent in CY2005, and 26.4 percent in 2004 and an average annual growth rate of 1.2 percent in the County's resident employment during the CY2003-CY2006 period, income tax revenues increased 10.4 percent in FY04, 8.2 percent in FY05, 11.0 percent in FY06, and 21.1 percent in FY07. However, with no growth in resident employment in CY07, income taxes increased only 2.1 percent in FY08. As the chart below illustrates, total quarterly distributions for withholding and estimated payments increased 4.9 percent in FY08, +20.5 percent (FY07), +5.6 percent (FY06), +6.1 percent (FY05), and +15.1 percent (FY04).

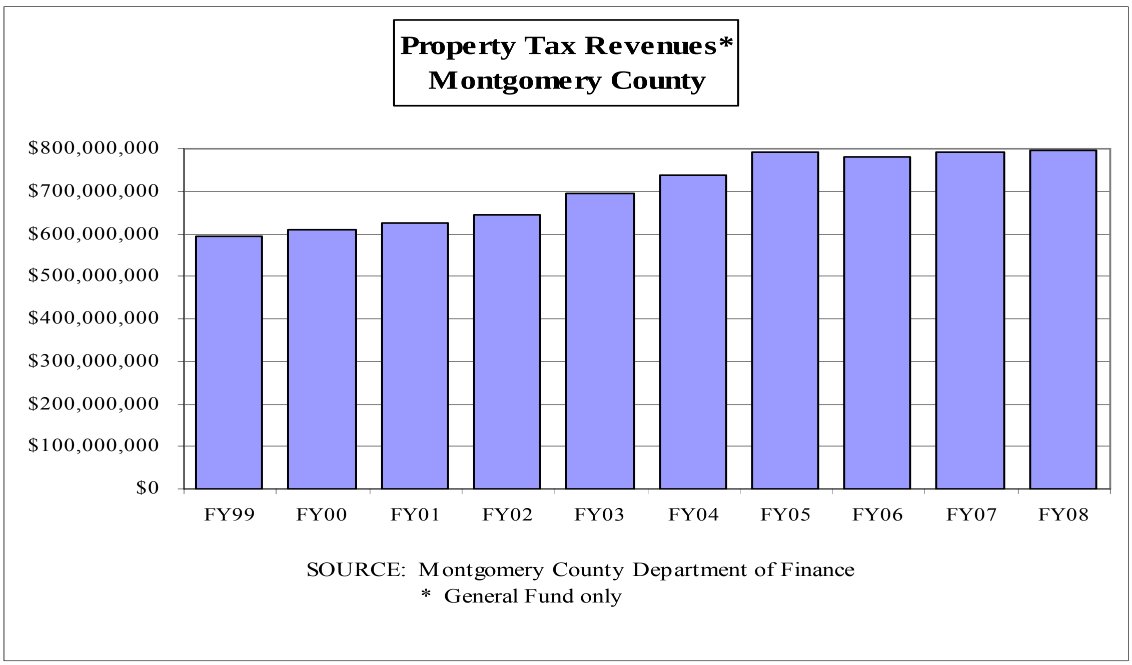


SOURCE: Montgomery County Department of Finance

Property Taxes - Property tax collections in the General Fund amounted to $796.8 million in FY08, which were $1.2 million (↑0.2%) above the budget estimate and 0.7 percent above actual revenues in FY07. Actual property taxes, excluding penalties and interest and other items, were $794.9 million in FY08 – an increase of 1.3 percent over last year. Collections from penalties and interest were $1.8 million — a 71.4 percent decrease compared to FY07. The reason for the modest increase in property tax revenues compared to the budget estimate is attributed to a slightly better increase in personal property taxable assessments which offset the decline in the amount for penalties and interest. The modest increase in property tax collections for the General Fund was also attributed to actions by the

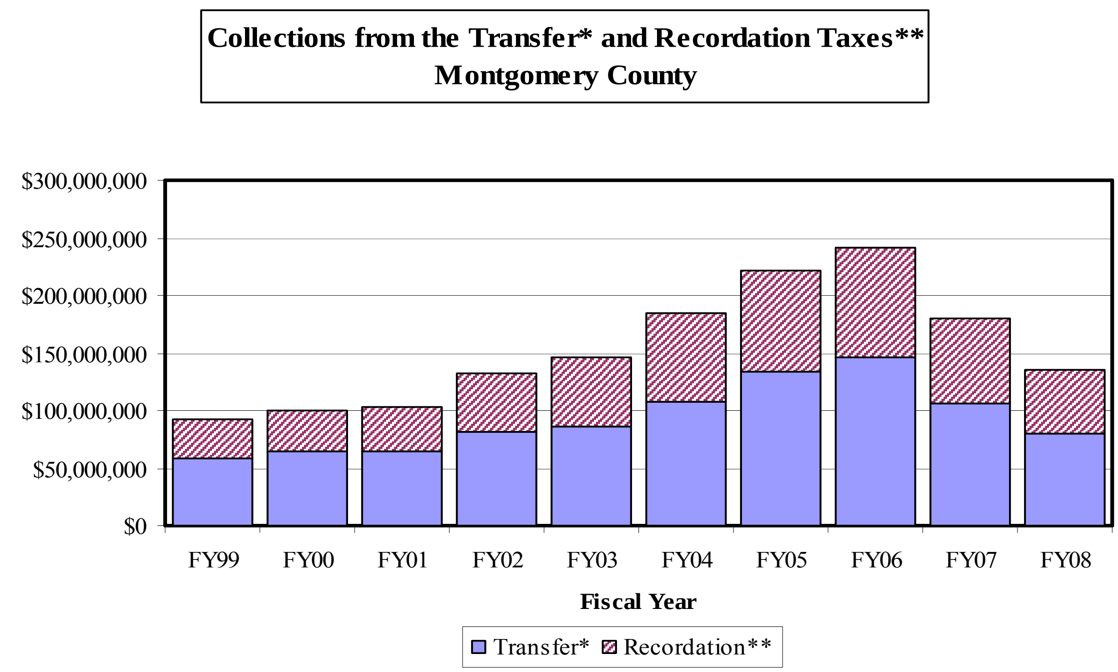
County to limit the amount of increase in real property taxes to the rate of inflation as required by the Charter Limit. Such actions by the County included an income tax offset of $613 per owner-occupied residence yielding a total amount of $151.1 million for the credit, and the County supplemental Homeowner's Tax Credit Program, both of which were applied to (deducted from) the General Fund.

The taxable assessments for real property increased 13.2 percent from FY07 to FY08. This was the second largest increase in over eighteen years. New construction, which added $1.5 billion to the base in FY08, was 7.6 percent lower than in FY07. The real estate market, particularly the annual double-digit price increases during prior fiscal years (FY02-FY06), fueled the dramatic increase in the reassessment rate from 21.8 percent to 65.0 percent for Cycle Two reassessments of the County's real property with the three-year phase in starting in Levy Year(LY) 2005, that preceded an increase in the rate from 36.3 percent to 63.3 percent for Cycle Three reassessments in LY06, but declined from 51.8 percent to 36.3 percent for Cycle One in LY07 indicating a significant deceleration in the growth of average sales prices during FY07 (↑2.0%) and FY08 (↑0.4%). However, because of the homestead credit, annual increases in homeowners' taxable assessments are limited to 10 percent per year although other property such as commercial and investment residential properties are not affected by this credit. While there were dramatic increases in the reassessment rates, which added nearly $21.6 billion to the assessable base in FY08, such increases were potentially offset by the homestead tax credit, which excluded an additional $6.5 billion from the real property taxable base in FY08.



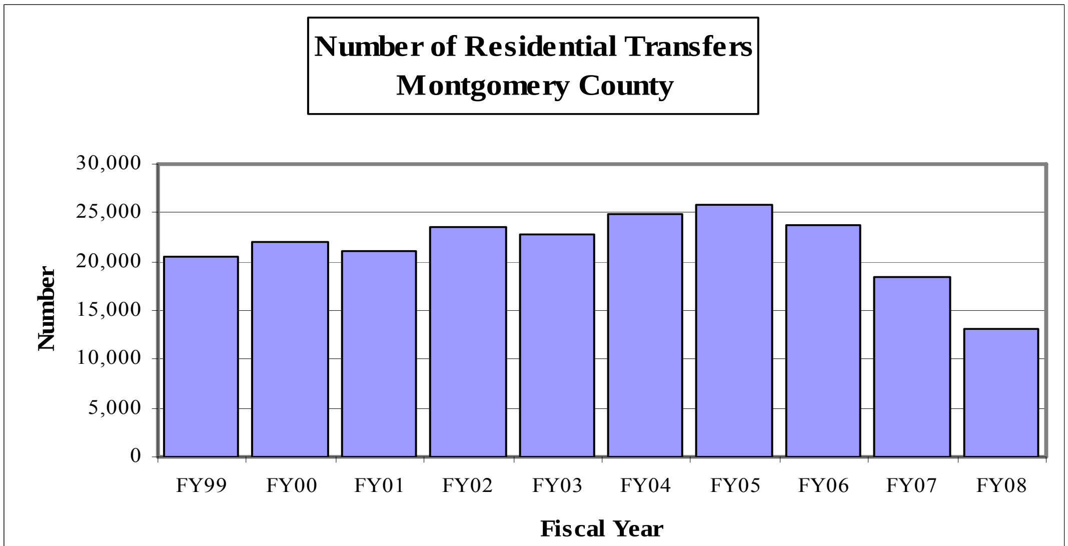
Assessments of personal property increased 2.8 percent in FY99, 3.2 percent in FY00, 5.1 percent in FY01, 3.0 percent in FY02, 0.6 percent in FY03, but declined 6.2 percent in FY04 primarily due to weaknesses in all three categories: individual, public utility, and corporate. Unfortunately, there was no rebound in the subsequent years as illustrated by a 1.5 percent decline in FY05, and another 1.8 percent decline in FY06. The declines in FY05 and FY06 were attributed to adjustments to individual personal property undertaken by the Maryland Department of Assessments and Taxation. However, because of the rebound in personal property for public utilities, assessments increased 3.1 percent in FY07 and a modest 0.5 percent in FY08. For the past four fiscal years (FY05-FY08), taxable assessments for personal property averaged $3.913 billion ranging from a low of $3.832 billion in FY06 to a high of $3.971 billion in FY08. Despite the weaker trend in personal property since FY04, the total taxable assessment grew 9.6 percent in FY05, 11.9 percent in FY06, 13.4 percent in FY07, and 12.8 percent in FY08.

Transfer and Recordation Taxes - The third major category in the County is the combination of real property transfer and recordation taxes. The combined tax receipts from these sources in FY08 were $135.0 million (excluding recordation tax revenues earmarked for CIP funding of school construction and transfer tax revenues from condominium conversions), and 30.1 percent below the budget estimate and 24.8 percent below actual revenues in FY07. The FY08 decline in collections from transfer and recordation taxes was the second consecutive decrease which represented a decline of $106.7 million over the two-year period. The drop in housing sales (↓31.3%) during FY08 was the major factor in the decline. As the accompanying chart illustrates, the total amount collected from these taxes increased from $93.0 million in FY99 to a peak of $241.7 million in FY06, before declining to $135.0 million in FY08, the lowest amount since the increase in the recordation tax rate beginning in FY03 from $4.40 per $1,000 to $6.90 per $1,000 of the value of the contract excluding the first $50,000 exempted from taxation for residential properties.



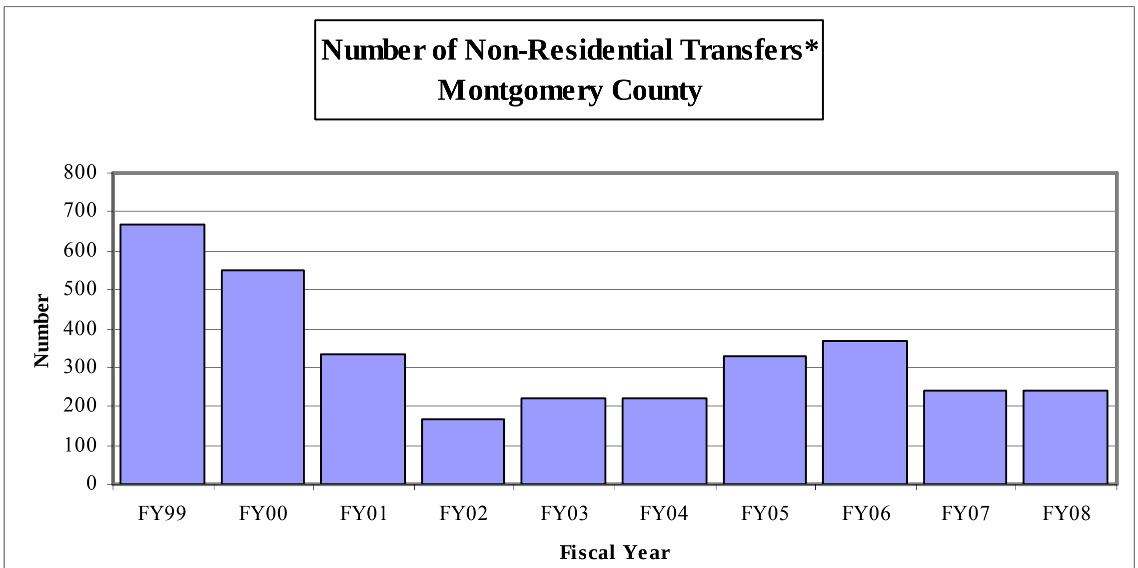
SOURCE: Montgomery County Department of Finance
* Excludes condominium conversions
** Excludes School CIP

General Fund revenues from the transfer tax experienced a decline of 24.8 percent in FY08 compared to the same decline from the recordation tax. Because of the decrease, attributed to a dramatic reduction in home sales in FY08 (↓31.3%), revenues from the residential sector were $68.5 million, a decrease of 26.0 percent over FY07 − the second consecutive decrease since FY95. The number of residential transfers declined to approximately 13,100 (↓28.9%) − the lowest level in over eighteen years and reflecting the dramatic drop in housing sales.



SOURCE: Montgomery County Department of Finance

The commercial market performed better in FY08 than the residential sector with revenues increasing 1.8 percent from $9.9 million to $10.1 million. The number of transfers were the same (240) as FY07 – the lowest level of activity since FY04 (222).



SOURCE: Montgomery County Department of Finance
* Excludes farm, rezoned rates and condominium conversions.

Other Taxes - The remaining tax sources – consisting of fuel/energy, telephone, hotel/motel, and admissions and amusement taxes – totaled $168.7 million and were approximately $2.3 million, or 1.4 percent, below the budget estimate. Revenues from the telephone tax were 0.8 percent above the budget estimate. That modest increase was attributed to increases in the use of cellular telephones, which represented nearly 70 percent of total revenues, and offset the decline in landlines. The remaining consumption/excise taxes were below budget estimates. Revenues from the hotel/motel industry of $17.8 million in FY08 were 3.4 percent below the budget estimate. The fuel/energy tax was 1.4 percent below the budget estimate, which was attributed to a mild winter and therefore a decline in revenues from fuel oil (↓13.2%) and no change in revenues from natural gas; and the dramatic decrease in the admissions tax (↓11.6%) from the budget estimate, which was attributed to the decline in tax receipts from three of the largest sources of revenues which represent 82.0 percent of total revenues − movie theaters (↓0.3%), arcades (↓0.2%), and golf activities (↓17.4%).

Investment Income - In the General Fund, investment income decreased from $13.2 million in FY07 to $8.9 million and was 40.6 percent below the budget estimate. The dramatic decrease in FY08 was the result of a significant accommodative policy of the Federal Open Market Committee (FOMC) of the Federal Reserve that reduced interest rates beginning in September 2007. From that time to April 2008, the FOMC decreased the target interest rate for federal funds from 5.25 percent to 2.00 percent ─ a decline of 325 basis points. The justification for such a decrease was the significant global credit crisis that began in August 2007. Because of this 325-basis-point decrease over the seven-month period, short-term or money market rates decreased as well, hence the average yield on cash equity for the County decreased from 5.21 percent in FY07 to 4.41 percent in FY08. Total pooled investment income on a budgetary basis, which includes all funds and outside participants excluding unrealized gains or losses, was $42.8 million or 11.6 percent below last fiscal year. However, with the decrease in investment income coupled with a lesser rate of increase in spending, the average daily portfolio balance increased from $930.9 million in FY07 to $971.4 million in FY08.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The County's investment in capital assets as of June 30, 2008, amounted to $2,937.6 million (net of accumulated depreciation and amortization), as summarized below:

Capital Assets, Net of Depreciation
June 30, 2008

	Governmental Activities	Business-type Activities	Total FY08	Total FY07
Land	$ 605,871,292	$ 52,777,663	$ 658,648,955	$ 622,872,601
Buildings	484,343,273	130,820,597	615,163,870	632,570,022
Improvements other than buildings	28,973,951	26,100,535	55,074,486	55,789,443
Furniture, fixtures, equipment and machinery	103,612,263	7,720,055	111,332,318	123,923,600
Leasehold improvements	9,890,909	-	9,890,909	10,701,654
Automobiles and trucks	111,396,128	1,545,316	112,941,444	105,879,857
Infrastructure	1,113,794,087	13,347	1,113,807,434	1,116,675,529
Other assets	380,180	-	380,180	588,153
Construction in progress	257,837,176	2,530,116	260,367,292	182,845,441
Total	$ 2,716,099,259	$ 221,507,629	$ 2,937,606,888	$ 2,851,846,300

*Certain amounts have been reclassified to conform with the current year presentation.

Changes in the County's capital assets for FY08 are summarized as follows:

Change in Capital Assets
For the Fiscal Year Ended June 30, 2008

	Governmental Activities	Business-type Activities	Total FY08	Total FY07
Beginning Balance	$ 2,627,754,382	$ 224,091,918	$ 2,851,846,300	$ 2,766,264,771
Additions*	180,275,634	9,759,858	190,035,492	185,929,502
Retirements, net*	422,156	16,613	438,769	467,433
Depreciation expense	91,508,601	12,327,534	103,836,135	99,880,540
Ending Balance	$ 2,716,099,259	$ 221,507,629	$ 2,937,606,888	$ 2,851,846,300

* Presented net of transfers from construction in progress; retirements are also net of related accumulated depreciation.

Major capital asset events during the current fiscal year included the following:

- Roads, including underlying land, valued at $9 million were transferred to the County by various developers.
- In order to improve safety, accommodate high traffic and improve accessibility throughout the County, $20.7 million was spent to construct, realign or upgrade roads throughout Montgomery County.
- $5 million was incurred to purchase preservation easements on farmland in agricultural zones and other zones approved by the County Council to preserve farmland not protected by Transferable Development Rights (TDRs) or State agricultural land preservation easements.
- The County incurred $15.5 million in costs for the acquisition of replacement fire apparatus for various fire stations throughout the County and $2.4 million for the acquisition of Ride-On buses.
- To accommodate growing business community and diversity of residential population; land purchase of $7.3 million for the construction of a library to be built for the community of Silver Spring. The existing Silver Spring Community Library is the oldest community library in the Montgomery County Library system.

Additional information pertaining to the County's capital assets can be found in Notes to Financial Statements, Notes I-D5 and III-C.

Long-Term Debt:

The following is a summary of the County's gross outstanding long-term debt as of June 30, 2008:

Long-Term Debt
June 30, 2008

	Governmental Activities	Business-type Activities	Total FY08	Total FY07
General obligation bonds	$ 1,366,758,054	$ -	$1,366,758,054	$1,512,678,054
Variable rate demand obligation	100,000,000	-	100,000,000	100,000,000
Bond anticipation notes	300,000,000	-	300,000,000	150,000,000
Revenue bonds	-	54,685,000	54,685,000	61,800,000
Lease revenue bonds	36,670,000	-	36,670,000	38,255,000
Notes payable *	9,920,647	724,795	10,645,442	14,901,561
Certificates of participation	33,580,000	-	33,580,000	-
Capital leases	74,472,783	-	74,472,783	91,349,328
Compensated absences	65,022,294	4,911,073	69,933,367	63,439,639
Other postemployment benefits	58,598,791	-	58,598,791	-
Claims and judgements	-	-	-	1,200,000
Landfill closure costs	-	22,733,923	22,733,923	24,697,923
Total	$ 2,045,022,569	$ 83,054,791	$2,128,077,360	$2,058,321,505

* Notes payable include equipment notes, taxable term loans, and HUD loan.

At June 30, 2008, the County had outstanding general obligation (GO) bonds of $1,366.8 million, with outstanding variable rate demand obligations (VRDOs) of $100 million and bond anticipation notes (BANs) of $300 million. Over the last ten years, the County issued its GO bonds once a year, with the exception of FY08, when no GO "new money" bonds were issued. The County adopted a policy in 1988 of initially financing capital construction with BANs. BANs are subsequently paid off by the issuance of the County's GO bonds. Montgomery County also issues bonds to finance the capital construction of MCPS, MCC, and M-NCPPC not otherwise financed by the State of Maryland. Since FY98, the County sold general obligation bond issues, exclusive of refundings, of up to $250 million. Over the last ten fiscal years, the County's annual issues (including the June 2006 issue of $100 million of VRDOs) averaged $151.0 million.

The County continues to maintain its status as a top rated issuer of municipal securities, with the highest credit ratings possible for a local government. For its GO bonds, the County is a 'Triple AAA' rated County, and received ratings of Aaa from Moody's Investors Service, Inc., AAA from Standard and Poor's, and AAA from Fitch, Inc. County GO bonds have been consistently awarded the highest credit rating from Moody's and Standard and Poor's since 1973 and 1976, respectively, and from Fitch since 1991.

As of June 30, 2008, Montgomery County is one of only eight 'Triple AAA' rated counties in the nation with a population greater than 900,000. According to Standard and Poor's, a deep, diverse, and growing economy; strong financial management; and a low debt burden are the hallmarks of counties rated 'AAA.' The rating category, by definition, represents extremely strong capacity to pay principal and interest. Typically, 'AAA' rated counties demonstrate an ability to weather all economic cycles by maintaining tight budgetary controls, articulating and executing well-designed capital plans, maintaining sufficient reserves, and planning for future contingencies.

Continuing Disclosure - For purposes of complying with the County's continuing disclosure undertakings, this Comprehensive Annual Financial Report is provided to each nationally recognized municipal securities information repository and to the state information depository, if any, established for Maryland. The County is currently satisfying its disclosure requirements via electronic filings with the Municipal Advisory Council of Texas at http://www.disclosureusa.org. Individuals interested in the information to be provided pursuant to such continuing disclosure undertakings should refer to the A Exhibits and Notes to the Financial Statements, as well as Tables 4, 8, 9, 11, 17-21.

Significant bond-related debt activities during FY08 were:

- General Obligation Refunding Bonds – In March 2008, the County issued GO refunding bonds in the amount of $70.3 million. Proceeds were used to refund $72.8 million in GO bonds previously issued at higher rates. This refunding resulted in net present value savings to the County of $3.2 million.

- Certificates of Participation – In October 2007, the County issued Certificates of Participation in the amount of $33.6 million. The Certificate proceeds are being used to acquire fire apparatus and warehouse/maintenance equipment for use in the County's fire and rescue program.

- Bond Anticipation Notes (BANs) – The County issued $150 million in BANs in January 2008. The County issues BANs (commercial paper) to initially fund its capital program and uses GO bond proceeds to retire the commercial paper.

Significant debt activities relating to capital lease agreements during FY08 were:

- Temperature-Controlled Liquor Warehouse Project – The County entered into a lease financing arrangement in October 2006 to finance the construction of a temperature-controlled liquor warehouse for the Department of Liquor Control (DLC). Total proceeds were $10.6 million, and the lease term was for eight years. During FY08, this project was suspended in anticipation of moving the DLC operation and warehouse to another location within the County. In April 2008, unspent lease proceeds in the amount of $9.6 million were used to pay off the lease.

Additional information pertaining to the County's long-term debt can be found in Notes to Financial Statements, Notes I-D7, III-E3, and III-F.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The following economic factors are reflected in the County's FY09 budget:

- The County's economic projections in the FY09 budget assume a continued modest economic expansion in FY09 with the County experiencing low unemployment and a modest increase (↑0.7% in calendar year 2008) in total payroll employment.

- On a calendar year basis, total payroll employment increased 1.2 percent in CY07, the latest year for which data are available. That rate followed an average annual increase of slightly more than 0.9 percent between CY02 and CY06. Following a modest improvement in payroll employment during CY07, the County anticipates a deceleration in the growth of payroll employment in CY08 of 0.7 percent and an acceleration of 1.5 percent in CY09.

- The projection in the FY09 budget assumes that personal income will increase 4.0 percent in CY08 and 5.0 percent in CY09. Those rates are slightly below the estimated four-year annual average growth rate of 6.7 percent between CY03-CY07.

- On a calendar year basis, employment in Montgomery County, based on the labor force series as opposed to payroll employment, is expected to increase a modest 0.4 percent in CY08 and accelerate 1.3 percent in CY09. The rate of growth in resident employment is estimated to remain reasonably steady with an average annual rate of 1.1 percent between CY09 and CY14. That estimate is consistent with the slower estimated growth in County population moderating to 0.9 percent by CY14.

- The estimated deceleration in the growth of employment in FY08 and personal income reflects the estimated slowdown in the national economy. That slowdown is reflected in the efforts of the Federal Open Market Committee (FOMC) of the Board of Governors of the Federal Reserve System (Federal Reserve) to cut the targeted interest for federal funds from 5.25 percent during the summer 2007 to 2.00 percent by April 2008.

- Inflation, as measured by the Consumer Price Index, is expected to increase 2.8 percent in FY09. Becauseof the interest rates cuts by the FOMC of the Federal Reserve during FY08, the County's economic projections include a decrease in the yield on its investments from 4.00 percent in FY08 to 2.5 percent for FY09.

OTHER SIGNIFICANT MATTERS

During 2008, financial markets as a whole incurred significant declines in values. Subsequent to year-end, the investment portfolios of the County's pension plans have also incurred significant declines in the values reported in the accompanying financial statements. However, it should be noted that the recent market events did not result in any material permanent impairment to the investment portfolios of the pension plans and due to the values of investments fluctuating with market conditions, the amount of investment losses that the plans will recognize in future financial statements, if any, cannot be determined.

REQUESTS FOR INFORMATION

The financial report is designed to provide a general overview of Montgomery County's finances for all those with an interest in the County's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Montgomery County Government, Department of Finance, 101 Monroe Street, Rockville, Maryland, 20850. This report can also be found on the County's website, http://www.montgomerycountymd.gov (see Departments, Finance, Financial Reports).

BASIC FINANCIAL STATEMENTS

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF NET ASSETS
JUNE 30, 2008

Exhibit A-1

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	Total
ASSETS				
Equity in pooled cash and investments	$ 563,735,892	$ 95,680,567	$ 659,416,459	$ 84,132,302
Cash with fiscal agents	44,923,316	-	44,923,316	21,553,463
Cash	633,604	220,821	854,425	14,444,734
Investments-cash equivalents	-	-	-	130,591,805
Investments	-	-	-	14,521,455
Receivables (net of allowances for uncollectibles):				
Income taxes	392,224,686	-	392,224,686	-
Property taxes	16,488,523	1,210,706	17,699,229	-
Capital leases	36,670,000	-	36,670,000	34,976,276
Accounts	45,407,553	5,376,043	50,783,596	9,438,802
Special assessments	13,438	-	13,438	-
Notes	6,494,464	-	6,494,464	32,430,000
Parking violations	539,073	2,306,082	2,845,155	-
Mortgages receivable	148,524,845	-	148,524,845	367,326,466
Interest	-	-	-	4,845,291
Other	436,603	-	436,603	19,543,233
Internal balances	1,120,969	(1,120,969)	-	-
Due from primary government	-	-	-	68,749,069
Due from component units	66,933,289	57,102	66,990,391	-
Due from other governments	43,898,103	143,695	44,041,798	28,303,919
Inventory of supplies	9,992,284	27,690,983	37,683,267	10,186,079
Prepaids	1,192,905	1,124,621	2,317,526	4,958,346
Deferred charges	4,696,652	850,058	5,546,710	593,180
Other assets	-	101,891	101,891	50,915,686
Restricted Assets:				
Equity in pooled cash and investments	-	36,411,912	36,411,912	3,096,797
Cash with fiscal agents	-	-	-	239,491
Cash	-	-	-	450,799
Investments - cash equivalents	-	-	-	115,190,413
Investments	-	5,148,195	5,148,195	210,301,986
Capital Assets:				
Nondepreciable assets	863,708,468	55,307,779	919,016,247	377,693,294
Depreciable assets, net	1,852,390,791	166,199,850	2,018,590,641	2,198,743,674
Total Assets	$ 4,100,025,458	$ 396,709,336	$ 4,496,734,794	$ 3,803,226,560

(Continued)

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF NET ASSETS, CONCLUDED
JUNE 30, 2008
Exhibit A-1

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	Total
LIABILITIES				
Accounts payable	$ 67,437,795	$ 16,321,966	$ 83,759,761	$ 85,029,956
Interest payable	31,482,902	421,686	31,904,588	17,946,033
Retainage payable	5,332,041	526	5,332,567	13,487,743
Accrued liabilities	59,890,487	12,785,481	72,675,968	79,294,712
Claims payable	87,017,897	-	87,017,897	16,438,489
Deposits	266,205	311,528	577,733	10,431,490
Due to primary government	-	-	-	67,192,069
Due to component units	68,083,177	665,892	68,749,069	-
Due to other governments	11,223,926	1,974,886	13,198,812	-
Unearned revenue	48,529,141	1,578,556	50,107,697	29,358,886
Other liabilities	-	577,104	577,104	13,583,063
Noncurrent Liabilities:				
Due within one year	485,009,784	14,691,224	499,701,008	122,264,078
Due in more than one year	1,602,543,510	68,401,749	1,670,945,259	1,198,113,707
Total Liabilities	2,466,816,865	117,730,598	2,584,547,463	1,653,140,226
NET ASSETS				
Invested in capital, net of related debt	1,875,327,937	166,059,652	2,003,119,670	2,039,658,747
Restricted for:				
Capital projects	34,220,782	-	34,220,782	178,445
General government	136,924,506	-	136,924,506	-
Public safety	23,321,469	-	23,321,469	-
Public works and transportation	23,552,421	76,590,751	100,143,172	-
Recreation	9,834,590	-	9,834,590	-
Community development and housing	175,002,228	-	175,002,228	-
Environment	4,252,202	-	4,252,202	-
Debt service	3,349,425	-	3,349,425	45,590,885
Other purposes	-	-	-	37,311,187
Unrestricted (deficit)	(652,576,967)	36,328,335	(577,980,713)	27,347,070
Total Net Assets	$ 1,633,208,593	$ 278,978,738	$ 1,912,187,331	$ 2,150,086,334

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
Exhibit A-2

		Program Revenues		
Functions	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Primary Government:				
Government Activities:				
General government	$ 304,526,806	$ 52,271,766	$ 9,833,718	$ 702,125
Public safety	601,156,598	33,618,772	29,421,302	1,867,152
Public works and transportation	233,193,597	17,750,337	65,513,498	22,482,671
Health and human services	286,907,329	6,504,109	102,694,709	-
Culture and recreation	118,017,417	27,740,357	5,084,296	3,183,810
Community development and housing	19,134,520	3,947,238	3,825,474	3,071,146
Environment	14,967,339	6,062,667	20,104	1,999,900
Education	1,783,953,133	-	-	-
Interest on long-term debt	95,931,334	-	-	-
Total Governmental Activities	3,457,788,073	147,895,246	216,393,101	33,306,804
Business-type Activities:				
Liquor control	190,742,139	213,711,131	-	-
Solid waste disposal and collection	98,166,937	102,107,187	10,000	-
Parking lot districts	27,854,499	26,486,431	-	-
Permitting services	26,977,767	28,320,497	-	-
Community use of public facilities	8,456,433	7,788,733	-	-
Total Business-type Activities	352,197,775	378,413,979	10,000	-
Total Primary Government	$ 3,809,985,848	$ 526,309,225	$ 216,403,101	$ 33,306,804
Component Units:				
General government (BUPI)	$ 4,460,975	$ 4,348,772	$ 252,298	$ -
Culture and recreation (MCRA)	22,640,186	19,292,142	-	1,934,597
Community development and housing (HOC)	197,507,792	103,847,684	92,376,761	8,759,800
Education:				
Elementary and secondary education (MCPS)	2,273,720,062	33,906,217	105,779,001	49,043,348
Higher education (MCC)	246,269,485	72,816,118	28,160,056	338,065
Total Component Units	$ 2,744,598,500	$ 234,210,933	$ 226,568,116	$ 60,075,810

General Revenues:
Property taxes
County income taxes
Real property transfer taxes
Recordation taxes
Fuel energy taxes
Hotel-motel taxes
Telephone taxes
Other taxes
Grants and contributions not restricted to specific programs
Investment income
Gain on sale of capital assets
Transfers
Total General Revenues and Transfers
Change in Net Assets
Net Assets - Beginning
Net Assets - Ending

Notes to Financial Statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
$ (241,719,197)	$ -	$ (241,719,197)	$ -
(536,249,372)	-	(536,249,372)	-
(127,447,091)	-	(127,447,091)	-
(177,708,511)	-	(177,708,511)	-
(82,008,954)	-	(82,008,954)	-
(8,290,662)	-	(8,290,662)	-
(6,884,668)	-	(6,884,668)	-
(1,783,953,133)	-	(1,783,953,133)	-
(95,931,334)	-	(95,931,334)	-
(3,060,192,922)	-	(3,060,192,922)	-
-	22,968,992	22,968,992	-
-	3,950,250	3,950,250	-
-	(1,368,068)	(1,368,068)	-
-	1,342,730	1,342,730	-
-	(667,700)	(667,700)	-
-	26,226,204	26,226,204	-
(3,060,192,922)	26,226,204	(3,033,966,718)	-
-	-	-	140,095
-	-	-	(1,413,447)
-	-	-	7,476,453
-	-	-	(2,084,991,496)
-	-	-	(144,955,246)
-	-	-	(2,223,743,641)
1,146,965,583	11,266,747	1,158,232,330	-
1,246,939,067	-	1,246,939,067	-
80,380,388	-	80,380,388	-
54,658,577	-	54,658,577	-
118,277,973	-	118,277,973	-
17,783,194	-	17,783,194	-
30,472,124	-	30,472,124	-
11,560,655	-	11,560,655	-
-	-	-	2,334,999,003
42,586,707	7,330,179	49,916,886	8,380,592
13,309,573	-	13,309,573	2,163
32,444,171	(32,444,171)	-	-
2,795,378,012	(13,847,245)	2,781,530,767	2,343,381,758
(264,814,910)	12,378,959	(252,435,951)	119,638,117
1,898,023,503	266,599,779	2,164,623,282	2,030,448,217
$ 1,633,208,593	$ 278,978,738	$ 1,912,187,331	$ 2,150,086,334

MONTGOMERY COUNTY, MARYLAND
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008
Exhibit A-3

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS					
Equity in pooled cash and investments	$ 86,743,201	$ 268,153	$ 97,598,250	$ 234,734,303	$ 419,343,907
Cash with fiscal agents	1,644,299	22,798,291	20,480,726	-	44,923,316
Cash	151,604	-	-	481,700	633,304
Receivables (net of allowances for uncollectibles):					
Income taxes	392,224,686	-	-	-	392,224,686
Property taxes	12,156,570	-	-	4,331,953	16,488,523
Capital leases	-	36,670,000	-	-	36,670,000
Accounts	39,289,253	-	411,950	3,601,951	43,303,154
Special assessments	-	13,438	-	-	13,438
Notes	-	-	12,068	6,482,396	6,494,464
Parking violations	539,073	-	-	-	539,073
Mortgages receivable	176,721	-	300,000	148,048,124	148,524,845
Other	-	-	35,526	398,691	434,217
Due from other funds	33,952,297	-	-	4,390,700	38,342,997
Due from component units	2,852,882	-	13,362,174	50,005,149	66,220,205
Due from other governments	23,196,462	-	10,543,015	9,907,368	43,646,845
Inventory of supplies	5,516,512	-	905,603	-	6,422,115
Prepaids	428,048	-	1,335	518,657	948,040
Total Assets	$ 598,871,608	$ 59,749,882	$ 143,650,647	$ 462,900,992	$ 1,265,173,129
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	$ 27,776,862	$ 268,606	$ 14,365,752	$ 13,712,707	$ 56,123,927
Retainage payable	19,789	-	5,277,344	34,908	5,332,041
Accrued liabilities	32,388,827	-	923,360	12,815,086	46,127,273
Deposits	-	-	100,000	166,205	266,205
Due to other funds	10,897,366	19,445,000	19,112,837	5,067,692	54,522,895
Due to component units	3,886,760	-	63,352,829	843,588	68,083,177
Due to other governments	3,156,895	-	3,043,073	5,023,958	11,223,926
Deferred revenue	347,932,303	36,686,851	1,363,334	54,869,972	440,852,460
Total Liabilities	426,058,802	56,400,457	107,538,529	92,534,116	682,531,904
Fund Balances:					
Reserved for:					
Legal debt restrictions	-	3,349,425	20,480,726	-	23,830,151
Long-term receivables	-	-	13,362,174	155,339,734	168,701,908
Inventory	5,516,512	-	905,603	-	6,422,115
Prepaids	428,048	-	1,335	469,996	899,379
Fire-Rescue Grant	-	-	-	1,358,436	1,358,436
Donor-specified purposes	-	-	-	1,332,534	1,332,534
Other purposes	2,520,540	-	13,740,056	-	16,260,596
Total Reserved	8,465,100	3,349,425	48,489,894	158,500,700	218,805,119
Unreserved, designated for, reported in:					
Encumbrances - Major Funds	24,158,117	-	-	-	24,158,117
Encumbrances - Special Revenue Funds	-	-	-	17,876,926	17,876,926
General Fund	56,609,030	-	-	-	56,609,030
Special Revenue Funds	-	-	-	39,279,326	39,279,326
Unreserved, undesignated (deficit), reported in:					
General Fund	83,580,559	-	-	-	83,580,559
Capital Projects Fund	-	-	(12,377,776)	-	(12,377,776)
Special Revenue Funds	-	-	-	154,709,924	154,709,924
Total Unreserved (Deficit)	164,347,706	-	(12,377,776)	211,866,176	363,836,106
Total Fund Balances	172,812,806	3,349,425	36,112,118	370,366,876	582,641,225
Total Liabilities and Fund Balances	$ 598,871,608	$ 59,749,882	$ 143,650,647	$ 462,900,992	$ 1,265,173,129

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2008
Exhibit A-4

Total fund balance - governmental funds (see Exhibit A-3)		$ 582,641,225
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental fund activities are not financial resources and therefore not reported in the funds:		
Nondepreciable capital assets:		
Land	$ 605,848,786	
Construction in progress	257,837,176	
Depreciable capital assets:		
Buildings	749,736,077	
Improvements other than buildings	45,715,730	
Furniture, fixtures, equipment and machinery	242,218,606	
Automobiles and trucks	146,471,269	
Infrastructure	1,560,586,835	
Other capital assets	2,079,731	
Total capital assets	3,610,494,210	
Less accumulated depreciation	(927,300,255)	2,683,193,955
Long-term liabilities related to governmental fund activities are not due and payable in the current period and therefore not reported in the funds:		
General obligation bonds payable	(1,366,758,054)	
Variable rate demand obligations	(100,000,000)	
Bond anticipation notes payable	(300,000,000)	
Lease revenue bonds payable	(36,670,000)	
Accrued interest payable	(31,477,891)	
Capital leases payable	(74,472,783)	
Certificates of participation	(33,580,000)	
Notes payable	(9,405,654)	
Other postemployment benefits	(58,598,791)	
Compensated absences	(63,274,917)	(2,074,238,090)
Costs incurred from the issuance of long-term debt are recognized as expenditures in the fund statements, but are deferred in the government-wide statements:		
Unamortized premiums	(65,845,455)	
Deferred amount on refunding	23,314,730	
Deferred issuance costs	4,696,652	(37,834,073)
Internal service funds are used by management to provide certain goods and services to governmental funds. The assets and liabilities of internal service funds are included in the government-wide statement of net assets:		
Assets:		
Current and noncurrent assets	158,245,300	
Capital assets	76,395,455	
Less accumulated depreciation	(43,490,151)	
Liabilities	(105,256,496)	
Cumulative loss for certain activities of internal service funds that is reported with business-type activities	662,373	86,556,481
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:		
Income taxes	320,299,454	
Property taxes	13,152,759	
Intergovernmental revenue	14,941,416	
Other revenue	44,495,466	392,889,095
Net assets of governmental activities (see Exhibit A-1)		$ 1,633,208,593

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
Exhibit A-5

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	$ 2,391,884,566	$ -	$ 41,757,898	$ 318,713,419	$ 2,752,355,883
Licenses and permits	9,279,207	-	-	1,912,950	11,192,157
Intergovernmental	132,669,827	-	19,439,599	92,562,706	244,672,132
Charges for services	29,562,090	-	328,936	50,464,628	80,355,654
Fines and forfeitures	20,335,482	-	-	1,247,680	21,583,162
Investment income	13,713,004	9,558,717	1,693,395	12,047,485	37,012,601
Miscellaneous	9,643,609	-	1,536,391	2,739,065	13,919,065
Total Revenues	2,607,087,785	9,558,717	64,756,219	479,687,933	3,161,090,654
EXPENDITURES					
Current:					
General government	241,572,265	-	-	15,809,346	257,381,611
Public safety	340,254,544	-	-	202,946,418	543,200,962
Public works and transportation	56,644,797	-	-	115,258,426	171,903,223
Health and human services	230,463,572	-	-	42,359,484	272,823,056
Culture and recreation	52,126,530	-	-	43,884,257	96,010,787
Community development and housing	11,943,682	-	-	3,972,537	15,916,219
Environment	4,038,270	-	-	5,204,116	9,242,386
Education	1,563,374,406	-	-	-	1,563,374,406
Debt Service:					
Principal retirement:					
General obligation bonds	-	143,437,553	-	-	143,437,553
Other notes	-	2,757,146	-	-	2,757,146
Interest:					
General obligation bonds	-	70,381,335	-	-	70,381,335
Variable rate demand obligations	-	2,704,548	-	-	2,704,548
Bond anticipation notes	-	5,564,456	-	-	5,564,456
Other notes	-	299,097	-	-	299,097
Leases and other obligations	-	16,358,135	-	-	16,358,135
Issuing costs	-	937,441	-	-	937,441
Capital projects	-	-	424,518,682	-	424,518,682
Total Expenditures	2,500,418,066	242,439,711	424,518,682	429,434,584	3,596,811,043
Excess (Deficiency) of Revenues over (under) Expenditures	106,669,719	(232,880,994)	(359,762,463)	50,253,349	(435,720,389)
OTHER FINANCING SOURCES (USES)					
Transfers in	41,129,150	241,949,614	58,478,734	40,876,520	382,434,018
Transfers (out)	(292,136,902)	(5,763,222)	(3,349,425)	(51,147,624)	(352,397,173)
Disposition of property	-	-	10,586,160	2,784,053	13,370,213
Payment to refunded bond escrow agent	-	(74,751,270)	-	-	(74,751,270)
Debt Issued:					
Bond anticipation notes	-	-	150,000,000	-	150,000,000
Lease revenue bonds	399,231	-	-	-	399,231
Certificates of participation	-	-	34,583,195	-	34,583,195
General obligation refunding bonds	-	70,295,000	-	-	70,295,000
Premium on general obligation refunding bonds	-	4,500,297	-	-	4,500,297
Capital lease financing	-	-	12,407	-	12,407
Total Other Financing Sources (Uses)	(250,608,521)	236,230,419	250,311,071	(7,487,051)	228,445,918
Net Change in Fund Balances	(143,938,802)	3,349,425	(109,451,392)	42,766,298	(207,274,471)
Fund Balances - Beginning of Year	316,751,608	-	145,563,510	327,600,578	789,915,696
Fund Balances - End of Year	$ 172,812,806	$ 3,349,425	$ 36,112,118	$ 370,366,876	$ 582,641,225

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
Exhibit A-6

Net change in fund balances - total governmental funds (see Exhibit A-5)		$ (207,274,471)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense:		
Capital outlay	$ 167,918,839	
Depreciation expense	(84,266,995)	83,651,844
In the statement of activities, only the gain on the sale of capital assets is reported. However, in the governmental funds all proceeds are reported as financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of capital assets sold.		(60,640)
Donations of capital assets increase net assets in the statement of activities but do not appear in the governmental funds because they are not financial resources.		9,119,031
Some revenues will not be collected for several months after the fiscal year ends. As such, these revenues are not considered "available" revenues and are deferred in the governmental funds. Deferred revenues increased (decreased) this year, as follows:		
Income taxes	(44,400,546)	
Property taxes	(1,560,801)	
Intergovernmental revenues	(5,903,638)	
Other revenues	(406,498)	(52,271,483)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities:		
Debt issued or incurred:		
General obligation bonds	(74,795,297)	
Bond anticipation notes	(150,000,000)	
Capital lease financing	(12,407)	
Lease revenue bonds	(424,220)	
Certificates of participation	(33,580,000)	
Less issuance costs	165,448	
Principal repayments:		
General obligation bonds	216,212,553	
Leases payable	2,747,677	
Capital leases	7,280,000	
Notes payable	2,891,969	(29,514,277)
Some expenses, representing the change in long-term liabilities or assets, reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:		
Accrued interest payable	(10,629,198)	
Compensated absences	(5,813,162)	
Other postemployment benefits	(58,598,791)	
Amortization	5,420,739	(69,620,412)
The current year gain for certain activities of internal service funds is reported with governmental activities.		1,155,498
Change in net assets of governmental activities (see Exhibit A-2)		$ (264,814,910)

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
Exhibit A-7

	Budget						
	Prior Year Carryover Encumbrances	Current Year	Total Original	Revisions	Final	Actual	Variance Positive (Negative)
Revenues:							
Taxes:							
Property	$ -	$ 794,269,945	$ 794,269,945	$ -	$ 794,269,945	$ 794,900,915	$ 630,970
Property - penalty and interest	-	1,254,584	1,254,584	-	1,254,584	1,842,705	588,121
Other	-	-	-	-	-	27,120	27,120
Total Property Tax	-	795,524,529	795,524,529	-	795,524,529	796,770,740	1,246,211
County Income Tax	-	1,286,890,000	1,286,890,000	-	1,286,890,000	1,291,339,613	4,449,613
Other Local Taxes:							
Real property transfer	-	120,810,000	120,810,000	-	120,810,000	80,380,388	(40,429,612)
Recordation	-	72,450,000	72,450,000	-	72,450,000	54,658,577	(17,791,423)
Fuel energy	-	119,930,000	119,930,000	-	119,930,000	118,277,973	(1,652,027)
Hotel - motel	-	18,410,000	18,410,000	-	18,410,000	17,783,194	(626,806)
Telephone	-	30,220,000	30,220,000	-	30,220,000	30,472,124	252,124
Other	-	2,490,000	2,490,000	-	2,490,000	2,201,957	(288,043)
Total Other Local Taxes	-	364,310,000	364,310,000	-	364,310,000	303,774,213	(60,535,787)
Total Taxes	-	2,446,724,529	2,446,724,529	-	2,446,724,529	2,391,884,566	(54,839,963)
Licenses and Permits:							
Business	-	4,104,310	4,104,310	-	4,104,310	4,161,704	57,394
Non business	-	4,606,050	4,606,050	-	4,606,050	5,117,503	511,453
Total Licenses and Permits	-	8,710,360	8,710,360	-	8,710,360	9,279,207	568,847
Intergovernmental Revenue:							
State Aid and Reimbursements:							
DHR State reimbursement - HB669	-	37,870,160	37,870,160	1,703,840	39,574,000	38,886,069	(687,931)
Highway user revenue	-	38,749,000	38,749,000	-	38,749,000	36,650,848	(2,098,152)
Police protection	-	13,200,000	13,200,000	-	13,200,000	13,569,439	369,439
Health and human services programs	-	6,477,510	6,477,510	-	6,477,510	5,871,307	(606,203)
Public libraries	-	4,236,232	4,236,232	-	4,236,232	4,902,039	665,807
911 Emergency	-	5,600,000	5,600,000	-	5,600,000	6,610,680	1,010,680
Electric regulation	-	2,766,000	2,766,000	-	2,766,000	2,675,220	(90,780)
Other	-	1,667,520	1,667,520	-	1,667,520	1,885,533	218,013
Total State Aid and Reimbursements	-	110,566,422	110,566,422	1,703,840	112,270,262	111,051,135	(1,219,127)
Federal Reimbursements:							
Federal financial participation	-	18,155,050	18,155,050	-	18,155,050	17,288,872	(866,178)
Other	-	3,020,090	3,020,090	-	3,020,090	2,948,187	(71,903)
Total Federal Reimbursements	-	21,175,140	21,175,140	-	21,175,140	20,237,059	(938,081)
Other Intergovennmental	-	1,343,570	1,343,570	-	1,343,570	1,381,633	38,063
Total Intergovernmental Revenue	-	133,085,132	133,085,132	1,703,840	134,788,972	132,669,827	(2,119,145)
Charges for Services:							
General government	-	1,512,200	1,512,200	-	1,512,200	1,384,358	(127,842)
Public safety	-	9,084,500	9,084,500	-	9,084,500	9,076,123	(8,377)
Health and human services	-	1,669,710	1,669,710	-	1,669,710	1,642,279	(27,431)
Culture and recreation	-	10,600	10,600	-	10,600	3,577	(7,023)
Environment	-	200,000	200,000	-	200,000	46,693	(153,307)
Public works and transportation	-	65,000	65,000	-	65,000	67,010	2,010
Total Charges for Services	-	12,542,010	12,542,010	-	12,542,010	12,220,040	(321,970)
Fines and forfeitures	-	18,917,260	18,917,260	-	18,917,260	20,335,482	1,418,222
Investment Income:							
Pooled investment income	-	14,933,599	14,933,599	-	14,933,599	8,873,930	(6,059,669)
Other interest income	-	30,000	30,000	-	30,000	6,987	(23,013)
Total Investment Income	-	14,963,599	14,963,599	-	14,963,599	8,880,917	(6,082,682)
Miscellaneous Revenue:							
Property rentals	-	4,566,900	4,566,900	-	4,566,900	5,039,539	472,639
Sundry	-	6,348,210	6,348,210	11,710	6,359,920	5,379,274	(980,646)
Total Miscellaneous Revenue	-	10,915,110	10,915,110	11,710	10,926,820	10,418,813	(508,007)
Total Revenues	-	2,645,858,000	2,645,858,000	1,715,550	2,647,573,550	2,585,688,852	(61,884,698)
Expenditures:							
Departments or Offices:							
County Council:							
Personnel	-	7,821,371	7,821,371	68,890	7,890,261	7,890,251	10
Operating	95,391	1,074,050	1,169,441	(62,982)	1,106,459	811,941	294,518
Totals	95,391	8,895,421	8,990,812	5,908	8,996,720	8,702,192	294,528
Board of Appeals:							
Personnel	-	513,620	513,620	3,850	517,470	517,459	11
Operating	279	73,390	73,669	(889)	72,780	46,926	25,854
Totals	279	587,010	587,289	2,961	590,250	564,385	25,865
Legislative Oversight:							
Personnel	-	1,217,199	1,217,199	13,460	1,230,659	1,199,270	31,389
Operating	-	72,390	72,390	-	72,390	24,681	47,709
Totals	-	1,289,589	1,289,589	13,460	1,303,049	1,223,951	79,098
Merit System Protection Board:							
Personnel	-	131,470	131,470	530	132,000	131,990	10
Operating	-	16,420	16,420	(530)	15,890	11,914	3,976
Totals	-	147,890	147,890	-	147,890	143,904	3,986
Zoning and Administrative Hearings:							
Personnel	-	425,639	425,639	-	425,639	412,994	12,645
Operating	-	94,940	94,940	-	94,940	65,048	29,892
Totals	-	520,579	520,579	-	520,579	478,042	42,537

(Continued)

MONTGOMERY COUNTY, MARYLAND
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS), CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
Exhibit A-7

	Budget						
	Prior Year Carryover Encumbrances	**Current Year**	**Total Original**	**Revisions**	**Final**	**Actual**	**Variance Positive (Negative)**
Inspector General:							
Personnel	$ -	$ 613,489	$ 613,489	$ 6,510	$ 619,999	$ 536,454	$ 83,545
Operating	140	53,990	54,130	(140)	53,990	48,522	5,468
Capital outlay	3,715	-	3,715	-	3,715	2,352	1,363
Totals	3,855	667,479	671,334	6,370	677,704	587,328	90,376
People's Counsel:							
Personnel	-	224,999	224,999	1,680	226,679	226,672	7
Operating	-	14,130	14,130	(1,410)	12,720	6,457	6,263
Totals	-	239,129	239,129	270	239,399	233,129	6,270
Circuit Court:							
Personnel	-	7,966,660	7,966,660	(125,740)	7,840,920	7,438,759	402,161
Operating	470,570	2,321,640	2,792,210	(15,558)	2,776,652	2,744,455	32,197
Capital outlay	-	-	-	125,740	125,740	125,735	5
Totals	470,570	10,288,300	10,758,870	(15,558)	10,743,312	10,308,949	434,363
State's Attorney:							
Personnel	-	11,285,049	11,285,049	3,380	11,288,429	11,288,411	18
Operating	2,928	533,430	536,358	62,930	599,288	599,281	7
Totals	2,928	11,818,479	11,821,407	66,310	11,887,717	11,887,692	25
County Executive:							
Personnel	-	4,651,953	4,651,953	(200,899)	4,451,054	4,451,051	3
Operating	53,069	360,840	413,909	162,486	576,395	576,395	-
Totals	53,069	5,012,793	5,065,862	(38,413)	5,027,449	5,027,446	3
Commission for Women:							
Personnel	-	1,124,299	1,124,299	(22,820)	1,101,479	1,069,619	31,860
Operating	28,102	161,380	189,482	33,272	222,754	222,748	6
Totals	28,102	1,285,679	1,313,781	10,452	1,324,233	1,292,367	31,866
Regional Service Centers:							
Personnel	-	3,137,731	3,137,731	41,270	3,179,001	2,961,047	217,954
Operating	156,861	1,112,401	1,269,262	(24,271)	1,244,991	1,113,332	131,659
Totals	156,861	4,250,132	4,406,993	16,999	4,423,992	4,074,379	349,613
Ethics Commission:							
Personnel	-	226,579	226,579	37,930	264,509	264,503	6
Operating	365	9,830	10,195	1,785	11,980	11,977	3
Totals	365	236,409	236,774	39,715	276,489	276,480	9
Intergovernmental Relations:							
Personnel	-	677,988	677,988	-	677,988	677,601	387
Operating	332	175,890	176,222	-	176,222	106,978	69,244
Totals	332	853,878	854,210	-	854,210	784,579	69,631
Board of Liquor License Commissioners:							
Operating	267	-	267	-	267	-	267
Totals	267	-	267	-	267	-	267
Public Information:							
Personnel	-	1,116,588	1,116,588	(30,390)	1,086,198	1,086,198	-
Operating	40,115	243,430	283,545	52,293	335,838	335,835	3
Totals	40,115	1,360,018	1,400,133	21,903	1,422,036	1,422,033	3
Board of Elections:							
Personnel	-	2,339,085	2,339,085	1,354,370	3,693,455	3,693,442	13
Operating	-	3,431,930	3,431,930	1,171,990	4,603,920	4,603,916	4
Totals	-	5,771,015	5,771,015	2,526,360	8,297,375	8,297,358	17
County Attorney:							
Personnel	-	4,954,867	4,954,867	(81,340)	4,873,527	4,873,523	4
Operating	38,566	464,391	502,957	227,685	730,642	730,638	4
Totals	38,566	5,419,258	5,457,824	146,345	5,604,169	5,604,161	8
Management and Budget:							
Personnel	-	3,776,110	3,776,110	23,640	3,799,750	3,595,437	204,313
Operating	16,093	191,780	207,873	(7,848)	200,025	200,025	-
Totals	16,093	3,967,890	3,983,983	15,792	3,999,775	3,795,462	204,313
Finance:							
Personnel	-	9,294,780	9,294,780	(313,250)	8,981,530	8,358,645	622,885
Operating	1,183,173	2,161,390	3,344,563	(60,417)	3,284,146	3,284,134	12
Capital outlay	5,636	-	5,636	53,450	59,086	59,078	8
Totals	1,188,809	11,456,170	12,644,979	(320,217)	12,324,762	11,701,857	622,905
Human Resources:							
Personnel	-	5,726,510	5,726,510	(168,810)	5,557,700	5,167,681	390,019
Operating	287,327	3,537,400	3,824,727	196,201	4,020,928	4,020,925	3
Totals	287,327	9,263,910	9,551,237	27,391	9,578,628	9,188,606	390,022
Technology Services:							
Personnel	-	17,721,681	17,721,681	(284,320)	17,437,361	17,428,370	8,991
Operating	4,575,931	14,534,370	19,110,301	(602,545)	18,507,756	18,506,255	1,501
Capital outlay	13,925	362,010	375,935	(220,000)	155,935	155,733	202
Totals	4,589,856	32,618,061	37,207,917	(1,106,865)	36,101,052	36,090,358	10,694
Procurement:							
Personnel	-	2,866,020	2,866,020	(64,920)	2,801,100	2,509,157	291,943
Operating	3,894	211,480	215,374	74,026	289,400	289,392	8
Totals	3,894	3,077,500	3,081,394	9,106	3,090,500	2,798,549	291,951
Consumer Protection:							
Personnel	-	2,580,969	2,580,969	11,290	2,592,259	2,554,523	37,736
Operating	50,166	131,750	181,916	(166)	181,750	141,701	40,049
Totals	50,166	2,712,719	2,762,885	11,124	2,774,009	2,696,224	77,785

(Continued)

Exhibit A-7

	Budget						
	Prior Year Carryover Encumbrances	Current Year	Total Original	Revisions	Final	Actual	Variance Positive (Negative)
Corrections and Rehabilitation:							
Personnel	$ -	$ 55,837,277	$ 55,837,277	$ 1,165,000	$ 57,002,277	$ 57,002,267	$ 10
Operating	20,693	7,464,250	7,484,943	406,990	7,891,933	7,891,915	18
Capital outlay	-	-	-	56,500	56,500	56,493	7
Totals	20,693	63,301,527	63,322,220	1,628,490	64,950,710	64,950,675	35
Human Relations Commission:							
Personnel	-	2,267,163	2,267,163	14,030	2,281,193	2,280,468	725
Operating	43,000	213,010	256,010	3,100	259,110	161,184	97,926
Totals	43,000	2,480,173	2,523,173	17,130	2,540,303	2,441,652	98,651
Police:							
Personnel	-	188,479,782	188,479,782	2,177,960	190,657,742	190,657,729	13
Operating	3,021,002	30,705,470	33,726,472	857,715	34,584,187	34,584,187	-
Totals	3,021,002	219,185,252	222,206,254	3,035,675	225,241,929	225,241,916	13
Sheriff:							
Personnel	-	16,976,236	16,976,236	241,540	17,217,776	17,217,768	8
Operating	392,268	2,078,730	2,470,998	131,821	2,602,819	2,602,810	9
Totals	392,268	19,054,966	19,447,234	373,361	19,820,595	19,820,578	17
Homeland Security:							
Personnel	-	5,024,162	5,024,162	(7,190)	5,016,972	4,645,567	371,405
Operating	672,441	986,420	1,658,861	(34,704)	1,624,157	1,624,154	3
Totals	672,441	6,010,582	6,683,023	(41,894)	6,641,129	6,269,721	371,408
Public Works and Transportation:							
Personnel	-	36,487,221	36,487,221	1,478,980	37,966,201	37,957,380	8,821
Operating	3,646,451	33,608,970	37,255,421	7,245,751	44,501,172	44,498,029	3,143
Totals	3,646,451	70,096,191	73,742,642	8,724,731	82,467,373	82,455,409	11,964
Health and Human Services:							
Personnel	-	124,877,503	124,877,503	594,357	125,471,860	122,799,966	2,671,894
Operating	1,428,373	99,951,730	101,380,103	1,927,381	103,307,484	96,778,661	6,528,823
Capital outlay	-	-	-	59,030	59,030	59,028	2
Totals	1,428,373	224,829,233	226,257,606	2,580,768	228,838,374	219,637,655	9,200,719
Libraries:							
Personnel	-	32,032,762	32,032,762	(706,570)	31,326,192	30,685,637	640,555
Operating	1,873,361	8,284,300	10,157,661	169,855	10,327,516	10,327,505	11
Capital outlay	75,960	-	75,960	-	75,960	75,960	-
Totals	1,949,321	40,317,062	42,266,383	(536,715)	41,729,668	41,089,102	640,566
Housing and Community Affairs:							
Personnel	-	5,049,428	5,049,428	22,500	5,071,928	4,759,387	312,541
Operating	50,163	658,220	708,383	206,754	915,137	847,501	67,636
Totals	50,163	5,707,648	5,757,811	229,254	5,987,065	5,606,888	380,177
Economic Development:							
Personnel	-	5,297,522	5,297,522	(509,900)	4,787,622	4,428,612	359,010
Operating	202,626	2,975,840	3,178,466	642,688	3,821,154	3,821,148	6
Totals	202,626	8,273,362	8,475,988	132,788	8,608,776	8,249,760	359,016
Environmental Protection:							
Personnel	-	3,511,230	3,511,230	(112,490)	3,398,740	3,127,352	271,388
Operating	336,543	1,253,799	1,590,342	107,966	1,698,308	1,603,113	95,195
Totals	336,543	4,765,029	5,101,572	(4,524)	5,097,048	4,730,465	366,583
Total Departments	18,789,726	785,760,333	804,550,059	17,578,477	822,128,536	807,673,252	14,455,284
Nondepartmental:							
State retirement contribution - operating	-	890,580	890,580	-	890,580	890,578	2
Retirees group insurance - operating	-	24,810,190	24,810,190	-	24,810,190	24,810,190	-
State positions supplement - personnel	-	119,330	119,330	2,660	121,990	121,990	-
Judges special pension contribution - personnel	-	3,740	3,740	10	3,750	3,749	1
Compensation adjustment - personnel	-	2,534,169	2,534,169	(2,368,700)	165,469	156,702	8,767
Compensation adjustment - operating	23,700	662,700	686,400	(110,000)	576,400	575,203	1,197
OPEB trust contributions - operating	-	12,067,320	12,067,320	-	12,067,320	12,067,320	-
Municipal tax duplication - operating	-	7,488,240	7,488,240	-	7,488,240	7,476,906	11,334
Tax grants to municipalities - operating	-	28,020	28,020	-	28,020	28,012	8
Rebate - Takoma Park police - operating	-	630,310	630,310	87,000	717,310	717,308	2
Rebate - Takoma Park library - operating	-	119,160	119,160	-	119,160	114,430	4,730
Homeowners' association roadways - operating	-	370,850	370,850	-	370,850	348,362	22,488
Contribution to risk management - operating	-	8,836,850	8,836,850	-	8,836,850	8,547,842	289,008
Historical activities - operating	-	346,280	346,280	-	346,280	346,280	-
Conference and Vistors Bureau - operating	77,995	644,350	722,345	32,423	754,768	731,317	23,451
Arts Council - operating	64,828	5,350,480	5,415,308	90,000	5,505,308	5,505,307	1
Community grants - operating	4,328,347	6,306,430	10,634,777	(144,182)	10,490,595	10,436,763	53,832
Conference Center - personnel	-	105,090	105,090	-	105,090	96,769	8,321
Conference Center - operating	124,189	500,000	624,189	(6,559)	617,630	393,458	224,172
County associations - operating	-	64,460	64,460	-	64,460	63,964	496
Metropolitan Washington C O G - operating	-	713,830	713,830	-	713,830	700,351	13,479
Public Technology, Inc. - operating	-	27,500	27,500	-	27,500	-	27,500
Independent audit - operating	-	342,500	342,500	24,010	366,510	366,504	6
Prisoner medical services - operating	-	10,000	10,000	440	10,440	10,434	6
Boards, committees and commissions - operating	-	20,000	20,000	5,170	25,170	25,167	3
Charter Review Commission - operating	-	1,500	1,500	-	1,500	934	566
Closing costs assistance - operating	-	160,500	160,500	-	160,500	80,025	80,475
Working families income supplement - operating	-	11,679,400	11,679,400	1,249,310	12,928,710	12,928,702	8
Interagency tech, policy & coord comm - operating	-	30,000	30,000	-	30,000	1,838	28,162
County Leases - operating	-	15,315,780	15,315,780	(1,220,000)	14,095,780	14,086,818	8,962
Rockville parking district - operating	260,000	377,500	637,500	(260,000)	377,500	359,444	18,056
Desktop computer modernizaton - operating	799,203	6,326,130	7,125,333	(228)	7,125,105	6,596,435	528,670
Utilities - operating	135,445	24,410,750	24,546,195	(3,986)	24,542,209	24,387,491	154,718

(Continued)

MONTGOMERY COUNTY, MARYLAND
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS), CONCLUDED
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
Exhibit A-7

	Budget						
	Prior Year Carryover Encumbrances	**Current Year**	**Total Original**	**Revisions**	**Final**	**Actual**	**Variance Positive (Negative)**
Total - Nondepartmental	$ 5,813,707	$ 131,293,939	$ 137,107,646	$ (2,622,632)	$ 134,485,014	$ 132,976,593	$ 1,508,421
Total Expenditures	24,603,433	917,054,272	941,657,705	14,955,845	956,613,550	940,649,845	15,963,705
Excess of Revenues over (under) Expenditures	(24,603,433)	1,728,803,728	1,704,200,295	(13,240,295)	1,690,960,000	1,645,039,007	(45,920,993)
Other Financing Sources (Uses):							
Transfers In:							
Special Revenue Funds:							
Fire Tax District	-	120,750	120,750	-	120,750	120,750	-
Economic Development	-	-	-	700,000	700,000	700,000	-
Recreation	-	4,705,060	4,705,060	-	4,705,060	4,705,060	-
Mass Transit	-	6,359,410	6,359,410	-	6,359,410	6,359,410	-
Water Quality Protection	-	182,820	182,820	-	182,820	182,820	-
Urban Districts	-	351,720	351,720	-	351,720	351,720	-
Housing Activities	-	108,300	108,300	-	108,300	108,300	-
Cable TV	-	2,942,180	2,942,180	-	2,942,180	2,942,180	-
Total Special Revenue Funds	-	14,770,240	14,770,240	700,000	15,470,240	15,470,240	-
Enterprise Funds:							
Liquor	-	22,150,050	22,150,050	-	22,150,050	22,150,050	-
Parking Lot Districts	-	842,170	842,170	(344,500)	497,670	497,670	-
Solid Waste Activities	-	1,805,300	1,805,300	-	1,805,300	1,805,300	-
Community Use of Public Facilities	-	279,390	279,390	-	279,390	279,390	-
Permitting Services	-	3,002,260	3,002,260	-	3,002,260	3,002,260	-
Total Enterprise Funds	-	28,079,170	28,079,170	(344,500)	27,734,670	27,734,670	-
Total Transfers In	-	42,849,410	42,849,410	355,500	43,204,910	43,204,910	-
Transfers In - Component Units:							
Montgomery County Public Schools	-	328,420	328,420	-	328,420	328,420	-
Montgomery College	-	-	-	-	-	270,225	270,225
Total Transfers In - Component Units	-	328,420	328,420	-	328,420	598,645	270,225
Transfers (Out):							
Special Revenue Funds:							
Recreation	-	(1,335,130)	(1,335,130)	-	(1,335,130)	(1,335,130)	-
Urban Districts	-	(1,101,360)	(1,101,360)	(50,360)	(1,151,720)	(1,151,720)	-
Mass Transit	-	(531,310)	(531,310)	-	(531,310)	(531,310)	-
Housing Activities	-	(20,868,360)	(20,868,360)	-	(20,868,360)	(20,868,360)	-
Economic Development	-	(2,587,860)	(2,587,860)	1,050,000	(1,537,860)	(1,537,860)	-
Grants	-	-	-	(451,341)	(451,341)	(566,643)	(115,302)
Cable TV	-	(432,000)	(432,000)	-	(432,000)	(375,200)	56,800
Total Special Revenue Funds	-	(26,856,020)	(26,856,020)	548,299	(26,307,721)	(26,366,223)	(58,502)
Internal Service Funds:							
Motor Pool	-	(893,530)	(893,530)	(674,415)	(1,567,945)	(1,551,516)	16,429
Total Internal Service Funds	-	(893,530)	(893,530)	(674,415)	(1,567,945)	(1,551,516)	16,429
Enterprise Funds:							
Community Use of Public Facilities	-	(142,450)	(142,450)	-	(142,450)	(142,450)	-
Parking Lot Districts	(87,657)	-	(87,657)	-	(87,657)	-	87,657
Solid Waste Activities	-	(1,835,230)	(1,835,230)	-	(1,835,230)	(1,835,230)	-
Permitting Services	-	(1,143,430)	(1,143,430)	-	(1,143,430)	(1,143,430)	-
Total Enterprise Funds	(87,657)	(3,121,110)	(3,208,767)	-	(3,208,767)	(3,121,110)	87,657
Debt Service Fund	-	(219,846,090)	(219,846,090)	(252,470)	(220,098,560)	(215,900,200)	4,198,360
Capital Projects Fund	(30,205,399)	(47,334,000)	(77,539,399)	(603,897)	(78,143,296)	(43,259,243)	34,884,053
Total Transfers (Out)	(30,293,056)	(298,050,750)	(328,343,806)	(982,483)	(329,326,289)	(290,198,292)	39,127,997
Transfers (Out) - Component Units and Joint Ventures:							
Montgomery County Public Schools - operating	-	(1,451,135,120)	(1,451,135,120)	-	(1,451,135,120)	(1,451,129,886)	5,234
Montgomery County Public Schools - capital	(3,885,358)	(5,162,000)	(9,047,358)	(3,125,000)	(12,172,358)	(4,466,217)	7,706,141
Total Montgomery County Public Schools	(3,885,358)	(1,456,297,120)	(1,460,182,478)	(3,125,000)	(1,463,307,478)	(1,455,596,103)	7,711,375
Montgomery College - operating	-	(100,334,960)	(100,334,960)	-	(100,334,960)	(100,334,960)	-
Montgomery College - capital	(11,595,907)	(4,181,000)	(15,776,907)	(633,210)	(16,410,117)	(7,443,343)	8,966,774
Total Montgomery College	(11,595,907)	(104,515,960)	(116,111,867)	(633,210)	(116,745,077)	(107,778,303)	8,966,774
Housing Opportunity Commission - operating	-	(5,731,290)	(5,731,290)	-	(5,731,290)	(5,636,660)	94,630
Housing Opportunity Commission - capital	-	(1,672,634)	(1,672,634)	-	(1,672,634)	(917,328)	755,306
Total Housing Opportunity Commission	-	(7,403,924)	(7,403,924)	-	(7,403,924)	(6,553,988)	849,936
M-NCPPC - operating	-	(120,700)	(120,700)	(694,800)	(815,500)	(798,233)	17,267
Total Transfers (Out) - Component Units and JV	(15,481,265)	(1,568,337,704)	(1,583,818,969)	(4,453,010)	(1,588,271,979)	(1,570,726,627)	17,545,352
Total Other Financing Sources (Uses)	(45,774,321)	(1,823,210,624)	(1,868,984,945)	(5,079,993)	(1,874,064,938)	(1,817,121,364)	56,943,574
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	(70,377,754)	(94,406,896)	(164,784,650)	(18,320,288)	(183,104,938)	(172,082,357)	11,022,581
Fund Balance - Beginning of Year	70,377,754	250,011,272	320,389,026	(1,373,849)	319,015,177	319,015,177	-
Fund Balance - End of Year	$ -	$ 155,604,376	$ 155,604,376	$ (19,694,137)	$ 135,910,239	$ 146,932,820	$ 11,022,581

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2008
Exhibit A-8

	Business-Type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Liquor	Solid Waste Activities	Parking Lot Districts	Other Enterprise Funds	Totals	
ASSETS						
Current Assets:						
Equity in pooled cash and investments	$ 15,081,555	$ 38,060,649	$ 22,802,372	$ 19,735,991	$ 95,680,567	$ 144,391,985
Cash	36,450	3,000	181,321	50	220,821	300
Receivables (net of allowances for uncollectibles):						
Property taxes	-	-	1,210,706	-	1,210,706	-
Accounts	2,966,464	2,392,436	5,980	11,163	5,376,043	2,104,399
Parking violations	-	-	2,306,082	-	2,306,082	-
Due from other funds	-	5,350	-	-	5,350	6,969,240
Due from component units	-	57,102	-	-	57,102	713,084
Due from other governments	-	143,695	-	-	143,695	251,258
Inventory of supplies	27,690,983	-	-	-	27,690,983	3,570,169
Prepaids	1,116,885	1,399	5,589	748	1,124,621	244,865
Other assets	101,891	-	-	-	101,891	-
Total Current Assets	46,994,228	40,663,631	26,512,050	19,747,952	133,917,861	158,245,300
Noncurrent Assets:						
Restricted Assets:						
Equity in pooled cash and equivalents	-	30,061,764	6,350,148	-	36,411,912	-
Investments	-	3,715,126	1,433,069	-	5,148,195	-
Restricted Assets	-	33,776,890	7,783,217	-	41,560,107	-
Unamortized debt costs	-	290,065	559,993	-	850,058	-
Capital Assets:						
Land, improved and unimproved	481,430	17,834,755	34,461,478	-	52,777,663	22,506
Improvements other than buildings	-	72,687,456	53,829,434	-	126,516,890	268,565
Infrastructure	-	14,351	-	-	14,351	-
Buildings	7,388,354	30,728,728	180,794,310	-	218,911,392	-
Furniture, fixtures, equipment, and machinery	5,841,880	12,729,120	1,060,733	1,990,975	21,622,708	3,395,303
Automobiles and trucks	3,360,867	433,711	91,763	275,258	4,161,599	72,709,081
Construction in progress	1,487,348	554,585	488,183	-	2,530,116	-
Subtotal	18,559,879	134,982,706	270,725,901	2,266,233	426,534,719	76,395,455
Less: Accumulated depreciation	11,140,022	98,119,723	94,140,442	1,626,903	205,027,090	43,490,151
Total Capital Assets (net of accumulated depreciation)	7,419,857	36,862,983	176,585,459	639,330	221,507,629	32,905,304
Total Noncurrent Assets	7,419,857	70,929,938	184,928,669	639,330	263,917,794	32,905,304
Total Assets	54,414,085	111,593,569	211,440,719	20,387,282	397,835,655	191,150,604
LIABILITIES						
Current Liabilities:						
Accounts payable	10,350,249	4,286,725	1,350,869	334,123	16,321,966	11,313,868
Interest payable	-	62,646	358,540	500	421,686	5,011
Retainage payable	-	-	526	-	526	-
Deposits	311,528	-	-	-	311,528	-
Claims payable	-	-	-	-	-	87,017,897
Accrued liabilities	2,453,577	1,204,904	494,687	11,809,350	15,962,518	3,490,555
Due to other funds	355,826	155,104	51,270	408,014	970,214	1,911,551
Due to component units	-	-	-	665,892	665,892	-
Due to other governments	569,773	1,384,353	20,760	-	1,974,886	-
Equipment notes payable	-	-	146,945	109,974	256,919	140,121
Unearned revenue	-	-	-	1,578,556	1,578,556	565,777
Revenue bonds payable	-	3,255,000	4,165,000	-	7,420,000	-
Landfill closure costs	-	3,331,000	-	-	3,331,000	-
Other liabilities	-	-	577,104	-	577,104	-
Total Current Liabilities	14,040,953	13,679,732	7,165,701	14,906,409	49,792,795	104,444,780
Noncurrent Liabilities:						
Equipment notes payable	-	-	393,426	74,450	467,876	374,872
Revenue bonds payable	-	13,307,407	33,995,775	-	47,303,182	-
Landfill closure costs	-	19,402,923	-	-	19,402,923	-
Compensated absences	454,201	222,202	91,482	459,883	1,227,768	436,844
Total Noncurrent Liabilities	454,201	32,932,532	34,480,683	534,333	68,401,749	811,716
Total Liabilities	14,495,154	46,612,264	41,646,384	15,440,742	118,194,544	105,256,496
NET ASSETS						
Invested in capital, net of related debt	7,419,857	20,300,576	137,884,313	454,906	166,059,652	32,390,311
Restricted for debt service	-	33,776,890	7,783,217	-	41,560,107	-
Unrestricted	32,499,074	10,903,839	24,126,805	4,491,634	72,021,352	53,503,797
Total Net Assets	$ 39,918,931	$ 64,981,305	$ 169,794,335	$ 4,946,540	279,641,111	$ 85,894,108
ADJUSTMENTS						
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds					(662,373)	
Net assets of business-type activities					$ 278,978,738	

Notes to Financial Statements are an integral part of this statement .

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
Exhibit A-9

	Business-Type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Liquor	Solid Waste Activities	Parking Lot Districts	Other Enterprise Funds	Totals	
OPERATING REVENUES						
Sales - net	$ 211,914,002	$ -	$ -	$ -	$ 211,914,002	$ -
Charges for services	13,110	101,807,902	17,898,995	10,295,135	130,015,142	211,908,969
Licenses and permits	1,586,703	10,500	-	25,698,826	27,296,029	-
Fines and penalties	155,719	102,328	7,924,258	113,671	8,295,976	-
Claim recoveries	-	-	-	-	-	1,584,237
Total Operating Revenues	213,669,534	101,920,730	25,823,253	36,107,632	377,521,149	213,493,206
OPERATING EXPENSES						
Cost of goods sold	152,276,889	-	-	-	152,276,889	-
Personnel costs	23,053,637	12,553,120	3,577,394	23,453,886	62,638,037	23,286,701
Other postemployment contributions	2,226,300	577,950	278,250	1,719,650	4,802,150	1,491,250
Postage	72,336	143,255	4,654	39,126	259,371	1,744,157
Self-insurance incurred and estimated claims	-	-	-	-	-	110,119,115
Insurance	574,160	706,343	26,591	10,830	1,317,924	20,181,218
Supplies and materials	455,460	626,408	451,223	442,614	1,975,705	28,498,111
Contractual services	1,779,366	76,437,977	5,726,589	4,161,146	88,105,078	12,798,120
Communications	514,647	192,430	151,814	384,440	1,243,331	643,905
Transportation	739,980	1,612,431	227,029	638,706	3,218,146	462,865
Public utility services	753,931	169,659	2,520,175	1,839,080	5,282,845	753,812
Rentals	4,831,006	31,884	1,429,874	2,082,979	8,375,743	714,544
Maintenance	776,746	737,250	2,468,593	369,920	4,352,509	10,216,222
Depreciation	875,849	2,218,544	9,083,854	149,287	12,327,534	7,241,606
Landfill closure expense	-	607,000	-	-	607,000	-
Other	565,762	654,592	16,571	243,634	1,480,559	1,679,512
Total Operating Expenses	189,496,069	97,268,843	25,962,611	35,535,298	348,262,821	219,831,138
Operating Income (Loss)	24,173,465	4,651,887	(139,358)	572,334	29,258,328	(6,337,932)
NONOPERATING REVENUES (EXPENSES)						
Property taxes	-	-	11,266,747	-	11,266,747	-
Intergovermental	-	10,000	-	-	10,000	-
Gain (loss) on disposal of capital assets	(721,220)	2,500	-	-	(718,720)	215,735
Investment income	645,672	4,139,908	1,626,957	917,642	7,330,179	6,654,152
Interest expense	(445,979)	(922,883)	(1,859,499)	(9,406)	(3,237,767)	(22,680)
Other revenue	41,597	163,100	638,189	-	842,886	384,514
Insurance recoveries	-	23,357	-	-	23,357	287,149
Total Nonoperating Revenues (Expenses)	(479,930)	3,415,982	11,672,394	908,236	15,516,682	7,518,870
Income (Loss) Before Capital Contributions and Transfers	23,693,535	8,067,869	11,533,036	1,480,570	44,775,010	1,180,938
Capital Contributions	-	-	399,231	-	399,231	-
Transfers In (Out):						
Transfers in	1,781,040	462,360	222,600	1,400,720	3,866,720	2,806,557
Transfers out	(22,168,275)	(1,805,300)	(9,454,897)	(3,281,650)	(36,710,122)	-
Total Transfers In (Out)	(20,387,235)	(1,342,940)	(9,232,297)	(1,880,930)	(32,843,402)	2,806,557
Change in Net Assets	3,306,300	6,724,929	2,699,970	(400,360)	12,330,839	3,987,495
Total Net Assets - Beginning of Year	36,612,631	58,256,376	167,094,365	5,346,900		81,906,613
Total Net Assets - End of Year	$ 39,918,931	$ 64,981,305	$ 169,794,335	$ 4,946,540		$ 85,894,108
Adjustment to reflect the consolidation of internal service fund activities relating to enterprise funds					48,120	
Change in net assets of business-type activities					$ 12,378,959	

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
Exhibit A-10

	Business-Type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Liquor	Solid Waste Activities	Parking Lot Districts	Other Enterprise Funds	Totals	
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers	$ 217,616,052	$ 98,611,263	$ 26,336,464	$ 35,023,626	$ 377,587,405	$ 210,994,712
Payments to suppliers	(168,889,384)	(88,728,654)	(15,419,638)	(11,239,385)	(284,277,061)	(77,533,282)
Payments to employees	(22,739,074)	(12,374,570)	(3,455,200)	(23,224,669)	(61,793,513)	(22,162,849)
Internal activity - operating payments from other funds	-	3,008,500	-	1,143,430	4,151,930	-
Other operating receipts	-	-	-	4,629,395	4,629,395	507,978
Other operating payments	-	-	-	(4,157,140)	(4,157,140)	-
Claims paid	-	-	-	-	-	(105,539,179)
Other revenue	41,597	186,457	638,189	-	866,243	180,932
Net Cash Provided (Used) by Operating Activities	26,029,191	702,996	8,099,815	2,175,257	37,007,259	6,448,312
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Property tax collections	-	-	11,520,903	-	11,520,903	-
Operating subsidies and transfers from other funds	1,781,040	462,360	222,600	1,400,720	3,866,720	171,240
Operating subsidies and transfers to other funds	(22,168,275)	(1,805,300)	(9,454,897)	(3,281,650)	(36,710,122)	-
Intergovernmental revenue	-	10,000	-	-	10,000	-
Net Cash Provided (Used) by Noncapital Financing Activities	(20,387,235)	(1,332,940)	2,288,606	(1,880,930)	(21,312,499)	171,240
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from capital debt	-	-	-	34,765	34,765	-
Proceeds from sale of capital assets	10,642	2,500	-	-	13,142	795,354
Purchases of capital assets	(1,055,614)	(4,909,341)	(3,972,188)	(138,732)	(10,075,875)	(8,431,270)
Principal paid on capital debt	(10,033,172)	(3,162,447)	(4,096,327)	(94,912)	(17,386,858)	(134,823)
Interest paid on capital debt	(445,979)	(854,538)	(1,795,079)	(8,906)	(3,104,502)	(23,992)
Internal activity - payments from other funds	-	-	-	-	-	2,635,317
Net Cash Provided (Used) by Capital and Related Financing Activities	(11,524,123)	(8,923,826)	(9,863,594)	(207,785)	(30,519,328)	(5,159,414)
CASH FLOWS FROM INVESTING ACTIVITIES						
Investment income from pooled investments	229,803	3,878,440	1,448,678	917,642	6,474,563	6,628,570
Investment income from nonpooled investments	415,869	22,310	-	-	438,179	25,582
Net Cash Provided (Used) by Investing Activities	645,672	3,900,750	1,448,678	917,642	6,912,742	6,654,152
Net Increase (Decrease) in Cash and Cash Equivalents	(5,236,495)	(5,653,020)	1,973,505	1,004,184	(7,911,826)	8,114,290
Balances - Beginning of Year	20,354,500	73,778,433	27,360,336	18,731,857	140,225,126	136,277,995
Balances - End of Year	$ 15,118,005	$ 68,125,413	$ 29,333,841	$ 19,736,041	$ 132,313,300	$ 144,392,285
Reconciliation of operating income (loss) to net cash provided by operating activities:						
Operating income (loss)	$ 24,173,465	$ 4,651,887	$ (139,358)	$ 572,334	$ 29,258,328	$ (6,337,932)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	875,849	2,218,544	9,083,854	149,287	12,327,534	7,241,606
Other revenue	41,597	186,457	638,189	-	866,243	180,932
Changes in assets and liabilities:						
Receivables, net	199,021	(256,831)	513,207	(2,067)	453,330	(1,979,087)
Inventories, prepaids and other assets	2,230,271	-	-	-	2,230,271	(197,706)
Accounts payable and other liabilities	(1,813,637)	(6,141,030)	(2,108,026)	753,985	(9,308,708)	6,527,900
Accrued expenses	322,625	43,969	111,949	701,718	1,180,261	1,012,599
Net Cash Provided (Used) by Operating Activities	$ 26,029,191	$ 702,996	$ 8,099,815	$ 2,175,257	$ 37,007,259	$ 6,448,312
Noncash investing, capital and financing activities:						
Captial asset donations	$ -	$ -	$ -	$ -	$ -	$ 203,582
Capital asset disposals	1,789,026	114,452	-	458,614	2,362,092	1,709,587
Assets acquired through transfers from governmental activities	-	-	399,231	-	399,231	-
Change in fair value of investments that are not cash equivalents	-	161,640	178,279	-	339,919	-

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2008
Exhibit A-11

	Pension and Other Employee Benefit Trusts	Investment Trust	Private-Purpose Trusts	Agency Funds
ASSETS				
Current Assets:				
Equity in pooled cash and investments	$ 906,095	$ 38,288,190	$ 305,947	$ 44,264,352
Cash	-	-	-	211,584
Investments:				
U.S. Government and agency obligations	443,577,797	-	-	-
Asset-backed securities	34,552,257	-	-	-
Municipal/Provincial bonds	875,646	-	-	-
Corporate bonds	373,424,224	-	-	-
Collateralized mortgage obligations	22,285,630	-	-	-
Commercial mortgage-backed securities	25,303,933	-	-	-
Common and preferred stock	1,417,024,398	-	-	-
Mutual and commingled funds	382,273,767	-	-	-
Short-term investments	194,817,255	-	-	-
Cash collateral received under securities lending agreements	347,037,914	-	-	-
Real estate	73,837,446	-	-	-
Private equity	144,270,869	-	-	-
Total investments	3,459,281,136	-	-	-
Receivables (net of allowances for uncollectibles):				
Dividends and accrued interest	11,672,596	-	-	-
Property taxes	-	-	-	5,796,641
Accounts	135,097	-	-	153,874
Due from other funds	12,090,218	-	-	-
Due from component units	201,678	-	-	-
Due from other governments	1,990,487	-	-	-
Total Current Assets	3,486,277,307	38,288,190	305,947	50,426,451
Total Assets	3,486,277,307	38,288,190	305,947	$ 50,426,451
LIABILITIES				
Current Liabilities:				
Accounts payable	479,340,639	-	82,799	3,320
Accrued liabilities	220,999	-	-	-
Deposits	-	-	-	983,251
Claims payable	3,469,435	-	-	-
Due to other funds	3,145	-	-	-
Due to other governments	-	-	-	3,425,798
Uncollected property taxes due to governments	-	-	-	5,472,155
Undistributed taxes and refunds	-	-	-	12,478,380
Unearned revenue	97,555	-	-	-
Tax sale surplus and redemptions payable	-	-	-	2,190,235
Other liabilities	-	-	-	25,873,312
Total Current Liabilities	483,131,773	-	82,799	50,426,451
Noncurrent Liabilities:				
Compensated absences	45,067	-	-	-
Total Liabilities	483,176,840	-	82,799	$ 50,426,451
NET ASSETS				
Held in trust for pension and other postemployment benefits, external investment pool participants, and other purposes	$ 3,003,100,467	$ 38,288,190	$ 223,148	

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
Exhibit A-12

	Pension and Other Employee Benefit Trusts	Investment Trust	Private-Purpose Trusts
ADDITIONS			
Contributions:			
Employers	$ 170,792,794	$ -	$ -
Members	56,772,213	-	236,509
Federal government - Medicare Part D	4,197,998	-	-
Share purchases	-	30,842,578	-
Total Contributions	231,763,005	30,842,578	236,509
Investment income (loss)	(72,467,434)	1,525,682	9,777
Less: Investment expenses	27,454,462	-	-
Net Investment Income (Loss)	(99,921,896)	1,525,682	9,777
Other income - forfeitures	550,434	-	-
Total Additions, net	132,391,543	32,368,260	246,286
DEDUCTIONS			
Benefits:			
Annuities:			
Retirees	105,368,941	-	-
Survivors	6,723,276	-	-
Disability	34,934,780	-	-
Claims	40,771,902	-	-
Total Benefits	187,798,899	-	-
Share redemptions	-	25,509,150	-
Member refunds	21,603,998	-	-
Program expenses	-	-	257,903
Administrative expenses	4,699,635	-	-
Total Deductions	214,102,532	25,509,150	257,903
Net Increase (Decrease)	(81,710,989)	6,859,110	(11,617)
Net Assets - Beginning of Year	3,084,811,456	31,429,080	234,765
Net Assets - End of Year	$ 3,003,100,467	$ 38,288,190	$ 223,148

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF NET ASSETS
COMPONENT UNITS
JUNE 30, 2008
Exhibit A-13

	MCPS	HOC	Nonmajor Component Units	Total
ASSETS				
Equity in pooled cash and investments	$ 53,651,705	$ 8,362,401	$ 22,118,196	$ 84,132,302
Cash with fiscal agents	-	17,379,727	4,173,736	21,553,463
Cash	8,624,942	15,398	5,804,394	14,444,734
Investments-cash equivalents	38,384,641	49,734,534	42,472,630	130,591,805
Investments	5,458,632	-	9,062,823	14,521,455
Receivables (net of allowances for uncollectibles):				
Capital leases	-	-	34,976,276	34,976,276
Accounts	-	2,548,074	6,890,728	9,438,802
Notes	-	-	32,430,000	32,430,000
Mortgages receivable	-	367,326,466	-	367,326,466
Interest	-	4,845,291	-	4,845,291
Other	-	17,870,363	1,672,870	19,543,233
Due from primary government	55,853,271	1,324,484	11,571,314	68,749,069
Due from other governments	20,414,664	1,178,126	6,711,129	28,303,919
Inventory of supplies	7,794,099	360,160	2,031,820	10,186,079
Prepaids	344,177	2,490,035	2,124,134	4,958,346
Deferred charges	-	-	593,180	593,180
Other assets	-	37,152,376	13,763,310	50,915,686
Restricted Assets:				
Equity in pooled cash and investments	-	-	3,096,797	3,096,797
Cash with fiscal agents	-	239,491	-	239,491
Cash	-	-	450,799	450,799
Investments - cash equivalents	-	110,706,324	4,484,089	115,190,413
Investments	-	210,301,986	-	210,301,986
Capital Assets:				
Nondepreciable assets	224,051,791	91,613,145	62,028,358	377,693,294
Depreciable assets, net	1,575,784,607	347,211,115	275,747,952	2,198,743,674
Total Assets	1,990,362,529	1,270,659,496	542,204,535	3,803,226,560
LIABILITIES				
Accounts payable	47,131,098	8,220,892	29,677,966	85,029,956
Interest payable	13,097	17,051,327	881,609	17,946,033
Retainage payable	13,228,548	-	259,195	13,487,743
Accrued liabilities	74,225,905	4,129,402	939,405	79,294,712
Claims payable	16,438,489	-	-	16,438,489
Deposits	-	10,409,840	21,650	10,431,490
Due to primary government	475,494	65,331,626	1,384,949	67,192,069
Unearned revenue	5,242,603	18,722,512	5,393,771	29,358,886
Other liabilities	-	13,583,063	-	13,583,063
Noncurrent Liabilities:				
Due within one year	25,623,782	90,693,797	5,946,499	122,264,078
Due in more than one year	189,361,872	849,083,179	159,668,656	1,198,113,707
Total Liabilities	371,740,888	1,077,225,638	204,173,700	1,653,140,226
NET ASSETS				
Invested in capital, net of related debt	1,770,426,148	23,247,204	245,985,395	2,039,658,747
Restricted for:				
Capital projects	-	-	178,445	178,445
Debt service	-	40,949,685	4,641,200	45,590,885
Other purposes	1,357,484	13,108,126	22,845,577	37,311,187
Unrestricted (deficit)	(153,161,991)	116,128,843	64,380,218	27,347,070
Total Net Assets	$ 1,618,621,641	$ 193,433,858	$ 338,030,835	$ 2,150,086,334

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF ACTIVITIES
COMPONENT UNITS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
Exhibit A-14

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
Functions	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	MCPS	HOC	Nonmajor Component Units	Total
Component units:								
General government	$ 4,460,975	$ 4,348,772	$ 252,298	$ -	$ -	$ -	$ 140,095	$ 140,095
Culture and recreation	22,640,186	19,292,142	-	1,934,597	-	-	(1,413,447)	(1,413,447)
Community development and housing	197,507,792	103,847,684	92,376,761	8,759,800	-	7,476,453	-	7,476,453
Education:								
Secondary education	2,273,720,062	33,906,217	105,779,001	49,043,348	(2,084,991,496)	-	-	(2,084,991,496)
Higher education	246,269,485	72,816,118	28,160,056	338,065	-	-	(144,955,246)	(144,955,246)
Total component units	$2,744,598,500	$ 234,210,933	$ 226,568,116	$ 60,075,810	(2,084,991,496)	7,476,453	(146,228,598)	(2,223,743,641)
General revenues:								
Grants and contributions not restricted to specific programs					2,145,844,639	-	189,154,364	2,334,999,003
Investment income					1,995,772	2,736,801	3,648,019	8,380,592
Gain on sale of capital assets					-	-	2,163	2,163
Total general revenues					2,147,840,411	2,736,801	192,804,546	2,343,381,758
Change in net assets					62,848,915	10,213,254	46,575,948	119,638,117
Net assets - beginning					1,555,772,726	183,220,604	291,454,887	2,030,448,217
Net assets - ending					$1,618,621,641	$ 193,433,858	$ 338,030,835	$2,150,086,334

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the County conform to accounting principles generally accepted in the United States of America (GAAP) applicable to local government entities. The following is a summary of significant policies:

A) Reporting Entity

Background

Montgomery County, Maryland (County) is a charter government under the constitution and general laws of the State of Maryland (State). The charter provides for separate legislative and executive branches with legislative responsibility vested in an elected nine-member county council and executive responsibility vested in an elected county executive. The County provides its citizens with services in areas of general government, public safety, public works and transportation, health and human services, education, culture and recreation, community development and housing, and environment.

As required by GAAP, these financial statements present the primary government and its component units, which are entities for which the primary government is considered financially accountable. The County reporting entity is determined by criteria established by the Governmental Accounting Standards Board (GASB). The judgment to include or exclude activities is dependent on evaluation of the GASB criteria. Various departments and agencies governed directly by the County Executive and the County Council of Montgomery County are included in the reporting entity as the primary government and are referred to hereafter as the Primary Government. The component units (as discussed below) are included in the reporting entity because the Primary Government approves the budget requests, provides a significant amount of funding for each of these units, and/or appoints the governing boards.

Discretely Presented Component Units

The financial data of the County’s component units are discretely presented in a column separate from the financial data of the primary government, to emphasize that the component units are legally separate from the Primary Government. Financial information regarding the component units is included in the component units’ combining statements. The following are the County’s component units, each of which has a June 30 fiscal year-end:

Montgomery County Public Schools (MCPS) provides public education in kindergarten through twelfth grade to children residing within Montgomery County. Members of the Board of Education are elected by the voters. (One nonvoting student member is elected by secondary students.) However, MCPS is fiscally dependent upon the Primary Government because the Primary Government approves the budget, levies taxes to provide the majority of the fiscal support, and issues debt for construction of school facilities.

Montgomery Community College (Montgomery College or MCC) provides educational services to County citizens by offering two-year associate degrees and a continuing education program. MCC is responsible for post secondary education within the government's jurisdiction. The Montgomery County Board of Community College trustees is the governing authority. The State Governor appoints the trustees from a list of candidates supplied by a nominating committee. The nominating committee is controlled by the County Executive and the County Council. Therefore, essentially the Primary Government and the State Governor must agree upon the trustees to serve on the College's Governing Board. In addition, the County Council reviews and approves both the operating and capital budgets and budgetary amendments of MCC. The Primary Government contributes substantial funding for both the operating and capital budgets, as well as issues debt for the construction of college facilities.

Montgomery County Revenue Authority (MCRA) is governed by a five-member Board of Directors. All members are appointed by the County Executive subject to the confirmation of the County Council. The County Council approves the capital budget of MCRA. MCRA approves its own operating budget. MCRA is an instrumentality of the Primary Government for the purpose of constructing, improving, and maintaining self-sustaining projects devoted to public use, good or welfare.

Housing Opportunities Commission of Montgomery County (HOC) is governed by seven commissioners who are appointed by the County Executive with the approval of the County Council. In addition, the County Council provides for a subsidy to the operating budget of HOC and guarantees a relatively small portion of its debt (up to $50,000,000). The HOC operating budget approval occurs on a project basis, with the County Council having authority to approve project budgets that include County funding. HOC presents its proposed budget to the Council for review and comment only, as required by Article 44A, Section 2 of the Annotated Code of Maryland. Even though there is a large dependence on the U.S. Department of Housing and Urban Development (HUD), HOC has sufficient financial accountability to the Primary Government to be included as a component unit.

Bethesda Urban Partnership, Inc (BUPI) has its entire eleven-member Board of Directors appointed by the County Executive with the approval of the County Council. The primary purpose of BUPI, a not-for-profit corporation, is to execute service contracts for the benefit of one of the Primary Government's special taxing districts (Bethesda Urban District). Substantially all of BUPI's funding is granted through the Primary Government's operating budget. The County Council annually approves the BUPI operating budget and is able to modify it in a manner similar to the way Primary Government agency budgets are modified.

Complete financial statements can be obtained at the component units' administrative offices listed below:

Montgomery County Public Schools 850 Hungerford Drive Rockville, MD 20850	Montgomery College 900 Hungerford Drive Rockville, MD 20850	Montgomery County Revenue Authority 101 Monroe Street, 4th Floor Rockville, MD 20850
Housing Opportunities Commission of Montgomery County, Maryland 10400 Detrick Avenue Kensington, MD 20895-2484	Bethesda Urban Partnership, Inc. 7700 Old Georgetown Road Bethesda, MD 20814	

Joint Ventures

The following organizations are considered joint ventures of the County: Maryland-National Capital Park and Planning Commission (M-NCPPC), Washington Suburban Sanitary Commission (WSSC), Washington Suburban Transit Commission (WSTC), Washington Metropolitan Area Transit Authority (WMATA), Metropolitan Washington Council of Governments (COG), and Northeast Maryland Waste Disposal Authority (NEMWDA). Disclosure of the County's participation in these joint ventures is presented in Note IV-D. Complete financial statements can be obtained at the joint ventures' offices listed below:

Maryland-National Capital Park and Planning Commission 6611 Kenilworth Avenue Riverdale, MD 20737	Washington Suburban Sanitary Commission 14501 Sweitzer Lane Laurel, MD 20707	Washington Suburban Transit Commission 4351 Garden City Drive, Suite 305 Hyattsville, MD 20785

Washington Metropolitan Area Transit Authority	Metropolitan Washington Council of Governments	Northeast Maryland Waste Disposal Authority
600 Fifth Street, NW	777 N. Capitol Street, NE, #300	100 South Charles St, Tower II-Suite 402
Washington, DC 20001	Washington, DC 20002	Baltimore, MD 21201-2705

B) Government-Wide and Fund Financial Statements

Government-Wide Financial Statements – The government-wide financial statements report information on all of the nonfiduciary activities of the Primary Government and its component units. Since by definition, assets of fiduciary funds are being held for the benefit of a third party (other local governments, private parties, pension participants, etc.) and cannot be used to address activities or obligations of the County, these funds are not incorporated into the government-wide statements. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities of the Primary Government, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

Statement of Net Assets – This statement is designed to display the financial position of the reporting entity as of year-end. Governments report all capital assets, including infrastructure, in the government-wide Statement of Net Assets and report depreciation expense – the cost of "using up" capital assets – in the Statement of Activities. Net assets are divided into three categories – 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

Statement of Activities – This statement demonstrates the degree to which the direct expenses of a given function or segment for the fiscal year are offset by program revenues. Therefore, this statement reflects both the gross and net costs per functional category (general government, public safety, public works and transportation, health and human services, culture and recreation, community development and housing, environment, and education) that are otherwise being supported by general revenues. Direct expenses (including depreciation) are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues. The County does not allocate indirect expenses. The operating grants column includes operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

Fund Financial Statements – Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

In the fund financial statements, financial transactions and accounts of the County are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise assets, liabilities, fund balance/net assets, revenues, and expenditures/expenses.

General Fund Budget-to-Actual Comparison Statement - Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in the process of establishing the annual operating budgets of state and local governments, and have a keen interest in following the financial progress of their governments over the course of the year. For this reason, the County has chosen to make its General Fund budget-to-actual comparison statement part of the basic financial statements. The County and many other governments revise their original budgets over the course of the year for a variety of reasons; such revisions are reflected in a separate column in this statement.

C) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Measurement Focus and Basis of Accounting

Full Accrual Basis Financial Statements - The government-wide, proprietary fund, and certain fiduciary fund (pension and other employee benefit trusts, investment trust, and private-purpose trusts) financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year in which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. Capital assets and related depreciation are also recorded in these statements. The agency funds also use the accrual basis of accounting to recognize assets and liabilities.

Modified Accrual Basis Financial Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. In the governmental funds, revenues are recorded as soon as they are susceptible to accrual (both measurable and available). Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment has matured and is due. Similarly, expenditures related to claims and judgments and compensated absences are recorded only to the extent that they are expected to be liquidated with expendable available financial resources. Also, capital assets and related depreciation and long-term liabilities are not recorded in these statements.

In applying the susceptible to accrual concept to income taxes (distributed by the State), property taxes, and intergovernmental revenues other than grants, the County defines "available" to mean received within 30 days after year-end.

In the State of Maryland, the State has assumed the responsibility for the collection of all income taxes and for distributing those collections to the respective counties. The counties set their individual tax rates within limits provided by State law. However, collections and pursuit of delinquent taxes are the responsibility of the State. The County records estimated receivables relating to income taxes when the underlying income is earned. Amounts not received within 30 days are reported as deferred revenue. At year-end, deferred revenue relating to income taxes primarily includes amounts related to late filers, delinquent returns and audits, and unallocated withholding, not received within the County's availability period. Amounts relating to late filers are expected to be received from the State within the next fiscal year; however, collections related to delinquent returns and audits and unallocated withholding may not occur and be remitted to the County for several years. Deferred revenue relating to income taxes primarily includes amounts related to late filers, delinquent returns and audits, and remaining unallocated withholding.

In applying the susceptible to accrual concept to operating and capital grants, classified with intergovernmental revenues in the fund financial statements, the County records receivables when the applicable eligibility requirements including time requirements are met. Related revenues are recognized to the extent that cash is expected to be received within one year of year-end. Resources received before the eligibility requirements are met are reported as deferred revenue.

Charges for services, licenses and permits, fines and penalties, and miscellaneous revenues (except earnings on investments) are generally recorded as revenues when received in cash during the year. At year-end, receivables are recorded for significant amounts due. If such amounts are received in cash after year-end within the County's 30 day availability period, they are recognized as revenue; if not, such amounts are reported as deferred revenue.

Financial Statement Presentation

The County reports the following major governmental funds:

General Fund - This fund is the general operating fund of the County. It is used to account for all financial resources except those required to be accounted for in another fund.

Debt Service Fund - This fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. Special assessment activities are accounted for in the Debt Service Fund for practical purposes because they differ significantly from traditional special assessment practices. The principal and interest collected annually on such assessments are used as a partial source of funding for debt service on all outstanding general obligation road and storm drainage bonds. The remaining debt service requirement is financed from current governmental revenues and transfers, generally from the General Fund.

Capital Projects Fund - This fund accounts for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

The County reports the following major enterprise funds:

Liquor Enterprise Fund - This fund accounts for the operations of twenty-five liquor stores and the Montgomery County Liquor Warehouse. Under State law, the Montgomery County Department of Liquor Control has a monopoly on the distribution of alcoholic beverages, and the sale of spirits, within the County.

Solid Waste Activities Enterprise Fund - This fund accounts for the fiscal activity of all solid waste disposal operations, including recycling and leaf vacuuming, for the County. The fund utilizes the Dickerson, Maryland Resource Recovery Facility for refuse incineration, in combination with the out-of-County landfill haul and local recycling operations, to meet its disposal and recycling requirements. The fund also accounts for the fiscal activity related to County contracted refuse collection within the Solid Waste Collection District. This district is essentially comprised of the higher density, non-municipal, residential areas of the County. The Vacuum Leaf Collection program provides leaf collection services to downcounty residents during the late fall/winter months.

Parking Lot Districts Enterprise Fund - This fund accounts for the fiscal activity related to serving the parking needs of the people who work and shop in the four central business districts zoned for commercial or industrial use identified as Silver Spring, Bethesda, Wheaton, and Montgomery Hills.

Additionally, the County reports the following fund types:

Other Governmental Funds - The other governmental fund types used by the County are special revenue and permanent. Special revenue funds are used to account for specific revenues that are legally restricted for particular purposes. Permanent funds account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the County's programs. The Housing Opportunities Commission Treasury Bonds Permanent Fund was closed during the year (see Note I-D.1).

Internal Service Funds - These funds are used to account for the financing of goods or services provided by one department or agency to other departments or to other governmental units, on a cost-reimbursement basis. There are four internal service funds reported by the County: Motor Pool, Liability and Property Coverage Self-Insurance, Employee Health Benefits Self-Insurance, and Central Duplicating.

The County reports the following fiduciary fund types:

Pension and Other Employee Benefit Trust Fund - This fund is used to account for all activities of the Employees' Retirement System of Montgomery County (defined benefit plan), Employees' Retirement Savings Plan (defined contribution plan), Deferred Compensation Plan, and Retiree Health Benefits Trust, including accumulation of resources for, and payment of, retirement annuities and/or other benefits and administrative costs.

Investment Trust Fund - This fund accounts for the portion of the external investment pool, sponsored by the County, that belongs to participating governments that are not part of the County reporting entity.

Private-Purpose Trust Funds - These funds account for arrangements under which principal and interest are legally held in trust for parties outside of the County, such as court appointed guardians, and others, and must be expended in accordance with their designated purposes.

Agency Funds - These funds are used to account for assets, such as property taxes, held in a purely custodial capacity, where the County receives, temporarily invests, and remits such resources to individuals, private organizations, or other governments.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The County has elected not to follow subsequent private-sector guidance.

In the process of aggregating data for the Statement of Net Assets and the Statement of Activities, some amounts reported as interfund activity and balances in the funds should be eliminated or reclassified. As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Assets and liabilities of internal service funds are included in governmental activities in the Statement of Net Assets. The effect of interfund services provided and used between functions has not been eliminated in the Statement of Activities, since to do so would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds and of the internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The County generally first uses restricted assets for expenses incurred for which both restricted and unrestricted assets are available. The County may defer the use of restricted assets based on a review of the specific transaction.

D) Assets, Liabilities, and Net Assets or Equity

1) Cash and Investments

Pooled Cash and Investments – The County sponsors an external investment pool. Participants in the pool include the County, certain component unit agencies, and other legally separate entities. The portion of pooled cash and investments applicable to other legally separate entities (not included in the County reporting entity) is accounted for in a separate Investment Trust Fund. During the year, investments are stated at cost plus accrued interest and are adjusted for amortization of premiums and accretion of discounts. At year-end, investments in the pool are adjusted to fair value plus accrued interest. See Note III-A for additional information.

Non-pooled Investments:

Governmental Fund Types – Investments of the Housing Opportunities Commission (HOC) Treasury Bonds Permanent Fund (a primary government fund) matured during the year. In accordance with agreements between HOC and the County, proceeds from the matured investments, which represented the net assets of the Fund, were transferred to the Housing Initiative Special Revenue Fund.

Proprietary Fund Types – The Solid Waste Activities and the Parking Lot District enterprise funds investment in U.S. Government securities are stated at fair value plus accrued interest.

Pension and Other Employee Benefit Trust Fiduciary Fund Type – Investments are stated at fair value. The fair value is generally based on quoted market prices at June 30, 2008. Fair value for real estate investments is determined using unit values supplied by the issuers, which are based upon the issuers' appraisals of underlying real estate values. Such values involve subjective judgment and may differ from amounts which would be realized if such real estate was actually sold. The fair value for private equity is based on information provided by the fund managers. Cash received as collateral on securities lending transactions and investments made with such cash are reported as assets along with a related liability for collateral received.

Cash and Cash Equivalents – For Statement of Cash Flows reporting purposes, "cash equivalents" are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, only investments with original maturities of three months or less meet this definition. The balance sheet classification for "cash and cash equivalents" in the Statement of Cash Flows includes the following: "Equity in pooled cash and investments," "Cash," "Cash with fiscal agents," and "Restricted Equity in pooled cash and investments."

2) <u>Receivables and Payables</u>

<u>Due From/To Other Funds and Internal Balances</u> – Activity between funds that are representative of lending/borrowing arrangements that are outstanding at the end of the year and where repayment is expected within a reasonable time are referred to as "due from/to other funds." Such outstanding balances not expected to be repaid within a reasonable time are included in interfund "transfers in/out." Any residual balances of "due from/to other funds" outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

<u>Trade Accounts Receivable</u> – Trade and other receivables are shown net of an allowance for uncollectibles. The allowance for uncollectibles is calculated based on historical collection data and, in some cases, specific account analysis.

3) <u>Inventories and Prepaids</u>

<u>Inventories</u> – Inventories are valued at lower of cost (principally first-in, first-out) or market in the Liquor Enterprise Fund and consist of goods held for sale. Inventories valued at cost (principally moving-average) are carried in the Motor Pool Internal Service Fund and the governmental fund types. All inventories are maintained by perpetual records and adjusted by annual physical counts. Inventories in the governmental funds and Motor Pool Internal Service Fund consist of items held for consumption. The cost is recorded as an expenditure at the time individual items are withdrawn for use. In governmental funds, the reserve for inventory is equal to the amount of inventory to indicate that portion of fund balance which is not available for funding other expenditures.

<u>Prepaids</u> – Payments made to vendors for services that will benefit periods beyond the end of the fiscal year are recorded as prepaids.

4) <u>Restricted Assets</u>

Certain proceeds of the County's bonds, as well as certain resources set aside for revenue bond repayment, are classified as restricted assets because their use is limited by applicable bond covenants.

5) <u>Capital Assets</u>

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, lighting systems, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The County defines capital assets as assets with an initial, individual cost of $5,000 or more, and an estimated useful life in excess of one year. Such assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest is capitalized on proprietary fund assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings and structures	20 – 40
Improvements other than buildings	3 – 40
Infrastructure	20 – 60
Furniture, fixtures, equipment and machinery	3 – 20
Automobiles and trucks	2 – 15

For Statement of Cash Flows reporting purposes, proceeds from insurance on capital assets that are stolen or destroyed are classified as proceeds from sale of capital assets.

6) Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources has been determined by the County to be immaterial and is therefore not reported as an expenditure and a liability of the governmental fund that will pay the leave. Vested or accumulated vacation leave is reported as a liability and expense in the government-wide financial statements and proprietary fund types in the fund financial statements, along with the corresponding employer's share of social security and medicare taxes. Based on a historical analysis of leave usage, 75 percent and 25 percent of such accrued leave is classified as current and long-term, respectively. In the proprietary fund financial statements, the current portion of compensated absences is classified as accrued liabilities. Such amounts have been reclassified to non-current liabilities (due within one year and due in more than one year) in the government-wide financial statements. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

7) Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using the bonds outstanding method. Bonds payable in the proprietary fund financial statements and noncurrent liabilities in the government-wide financial statements are reported net of the applicable bond premium or discount. Bond issuance costs are generally reported as a deferred asset and amortized over the term of the related debt using the straight-line method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

8) Fund Equity/Net Assets

In the government-wide financial statements, the County has reported negative unrestricted net assets. This is due to the fact that the County issues general obligation bonded debt for purposes of capital construction on behalf of MCPS, MCC, and M-NCPPC. The capital assets related to component units are reported on the financial statements of MCPS and MCC, and this amount is also classified as net assets invested in capital, net of related debt (of which there is none) in the Component Units column of the government-wide Statement of Net Assets (Exhibit A-1). For Primary Government purposes, since the issuance of such debt has not resulted in a capital asset, the effect of this debt is reflected in unrestricted net assets (deficit) in the Governmental Activities column of the government-wide Statement of Net Assets. At June 30, 2008, the County has reported outstanding general obligation bond and variable rate demand obligation debt related to MCPS, MCC, and M-NCPPC amounting to $1,023,021,034. Absent the effect of this relationship, the County would have reported positive unrestricted net assets of governmental activities in the amount of $370,444,067.

In the government-wide Statement of Net Assets (Exhibit A-1), the amount reported in the Business-type Activities column for net assets invested in capital, net of related debt, includes $51,966,226 in capital assets acquired by the Silver Spring Parking Lot District. Since the related capital lease liability of $38,267,919 at June 30, 2008, is an obligation of the Governmental Activities (see Note III-E3), and the debt does not relate to a governmental capital asset, the impact of such debt is reported in the unrestricted portion of net assets in the Governmental Activities column. However, in the Total Primary Government column, the impact of such debt has been reclassified and reflected with the associated capital asset, in net assets invested in capital, net of related debt.

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. However, long-term receivables in the Grants Special Revenue Fund, a nonmajor governmental fund, have not met the “available” criteria for revenue recognition, and are, therefore, offset by deferred revenue rather than reserved fund balance. In the Capital Projects Fund, fund balance reserved for other purposes represents recordation and impact tax collections on hand that are legally restricted for use on projects of other component unit and municipality governments.

Designations of fund balances represent tentative management plans that are subject to change, which are described more fully in Note III-H.

9) Property Taxes

Real and personal property taxes are levied at rates enacted by the County Council in the tax levy resolution on the assessed value as determined by the Maryland State Department of Assessments and Taxation. State law stipulates that the constant yield tax rate furnished by the Maryland State Department of Assessments and Taxation cannot be exceeded without public notice of the intent to exceed, and only after public hearings. The general property tax rate was levied above the constant yield rate for FY08. Following the Fairness in Taxation (FIT) legislation, the County Charter requires an affirmative vote of seven members of the Council to increase the real property tax rate to a level that will produce total revenues exceeding the total revenue produced by the tax on real property in the preceding year, plus 100 percent of any increase in the Consumer Price Index with exemptions for revenue from newly constructed, rezoned property and development district tax to fund capital improvement projects. The tax rate adopted for levy year 2007 (i.e., FY08), in conjunction with an enhanced homeowner’s tax credit program and a one-time income tax offset credit, met the Charter limit for that year.

Generally, property taxes are levied as of July 1 and become delinquent on October 1. Interest and penalty amounts are assessed annually at 20 percent on delinquent tax bills. Owner-occupied residential property owners pay their tax on a semi-annual schedule, with the first and second installments due on September 30 and December 31, respectively. Taxpayers may opt to make both semi-annual payments on or before September 30.

The County collects delinquent real property taxes through a public tax lien sale. Tax liens, representing delinquent taxes on real property are sold in random groups, utilizing a sealed bid process, on the second Monday in June, when taxes have remained overdue since the preceding October 1 or in the case of a semi-annual schedule, January 1.

E) <u>Accounting Changes</u>

The County has adopted GASB Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The primary impact of these statements on the County's financial statements relates to the determination of annual postemployment healthcare benefits costs and the reporting and disclosure requirements for the County's postemployment healthcare benefits activities. The County has established a fiduciary fund, the Retiree Health Benefits Trust, to account for and report on its postemployment healthcare benefits activities.

The County has also adopted GASB Statement No. 50, *Pension Disclosures an amendment of GASB Statements No. 25 and No. 27,* which did not have a significant impact on the County's financial statements.

NOTE II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A) <u>Budgetary Information</u>

<u>Overview</u>

Annual appropriated operating budgets are adopted for the General Fund, Debt Service Fund, substantially all Special Revenue Funds (except for the Agricultural Transfer Tax Fund), Enterprise Funds, the Liability and Property Coverage Self-Insurance Internal Service Fund, and the Employee Health Benefits Self-Insurance Internal Service Fund. The Capital Projects Fund budget is appropriated at the project level on a biennial basis. All unencumbered appropriations except for those related to Federal and State grants and those related to the Capital Projects Fund lapse at year-end.

Encumbrance accounting is employed for budgetary purposes in the governmental and proprietary funds. Encumbrances (purchase orders and contracts awarded for which goods and services have not been received at year-end), and other commitments for the expenditure of funds are recorded in order to preserve that portion of the appropriation. In the governmental funds for GAAP purposes, outstanding encumbrances are reported as a designation of fund balance because they do not constitute expenditures or liabilities. In the proprietary funds, encumbrances are eliminated for GAAP financial statement presentation since neither goods nor services have been provided. For GAAP purposes, all encumbrances are charged to expenditures/expenses in the period in which goods or services are received.

Since FY07, the Department of Public Libraries is appropriated by program; the three programs within the Department of Public Libraries' budget to actual expenditures are as follows:

	Budget	Actual	Variance Positive (Negative)
Administration, Outreach and Support Services:			
Personnel	$ 2,146,736	$ 2,146,730	$ 6
Operating	1,768,555	1,768,551	4
Totals	3,915,291	3,915,281	10
Library Services to the Public:			
Personnel	26,915,417	26,368,950	546,467
Operating	623,128	623,125	3
Capital Outlay	75,960	75,960	-
Totals	27,614,505	27,068,035	546,470
Collection Management:			
Personnel	2,264,039	2,169,957	94,082
Operating	7,935,833	7,935,829	4
Totals	10,199,872	10,105,786	94,086
Total Personnel	31,326,192	30,685,637	640,555
Total Operating	10,327,516	10,327,505	11
Total Capital Outlay	75,960	75,960	-
Grand Total	$ 41,729,668	$ 41,089,102	$ 640,566

Approval

Pursuant to the Montgomery County Charter, the Capital Improvements Program (CIP), is presented to the County Council by January 15 in even numbered years. An Amended CIP is presented to the County Council by January 15 in odd numbered years. The annual capital budget, with the CIP or Amended CIP, is presented to the County Council by January 15 of every year and the operating budget is presented to the County Council by March 15 of every year. The County Council holds public hearings and, pursuant to the County Charter, an annual appropriation resolution must be passed by the County Council by June 1. This resolution becomes effective for the one-year period beginning the following July 1. For the operating budget, the annual resolution provides the spending authority at the department level in three major categories (personnel costs, operating, and capital outlay) with the unencumbered appropriation authority expiring the following June 30. Encumbered appropriations are reappropriated and carried forward to the subsequent fiscal year. With the exception of the Grants Special Revenue Fund (see Note III-H1), such encumbrances are designated as part of the current fiscal year's fund balance. The annual budget must be consistent with the six-year program for public services and fiscal policy. Multi-year planning provides a framework to make informed decisions about the levels of public services and project the impact of what may happen as a result of current decisions and policies. For the capital projects budget, the annual resolution provides spending authority at the project level. The unencumbered appropriation of the CIP budget is reappropriated in the following year's budget unless specifically closed out by County Council action.

The County Executive has authority to transfer appropriations within departments up to 10 percent of the original appropriation. Transfers between departments are also limited to 10 percent of original appropriation and require County Council action. During the operating year the County Council may adopt a supplemental appropriation if recommended by the County Executive and after holding a public hearing. Supplemental appropriations enacted during the first half of the fiscal year require: five Councilmember votes if they are to avail the County of, or put into effect the provision of Federal, State, or local legislation or regulation; or six Councilmember votes for any other purpose. During the operating year the County Council may also adopt, with six Councilmember votes, special appropriations to meet an unforeseen disaster or other emergency or to act without delay in the public interest. Special appropriations require only public notice by news release. During FY08, the County Council increased the operating budget through supplemental and special appropriations by $67.7 million. In addition, supplemental appropriations increased the CIP budget by $49.9 million.

Presentation

The basis used to prepare the legally adopted budget is different from GAAP in a number of ways, including the following:

- Encumbrances outstanding are charged to budgetary appropriations and considered expenditures of the current period; any cancellations of such encumbrances in a subsequent year are classified with miscellaneous revenue for budgetary purposes.
- Certain activity, such as unrealized gains (losses), is not budgeted due to its nature.
- Certain interfund revenues/expenditures are classified as transfers for budget purposes.
- Proprietary fund budgets do not include depreciation and bad debts, however they do include debt service payments and capital outlay.
- Year-end incurred but not reported (IBNR) adjustments in the self-insurance internal service funds are not budgeted for, as they are incorporated into the budget preparation process of the following fiscal year.
- Mortgages and loans made and related repayments are generally accounted for as expenditures/other financial uses and revenues/other financing sources, respectively.
- Retirement of commercial paper bond anticipation notes through the issuance of general obligation bonds is not budgeted.
- Proceeds under certain capital lease financing are not budgeted.
- Certain activity is not budgeted by the County, since it is included in the budget of a component unit that is legally adopted by the County Council, such as certain pass-through expenditures, and bond proceeds and related transfers to MCPS and MCC.

Adjustments necessary to reconcile the General Fund budgetary and GAAP statements are as follows:

	Revenues	Expenditures and Encumbrances	Other Financing Sources (Uses)	Effect on Fund Balance
General Fund:				
As reported - budgetary basis	$ 2,585,688,852	$ 940,649,845	$ (1,817,121,364)	$ (172,082,357)
Reconciling items:				
Cancellation of prior year encumbrances	(1,373,849)	-	-	(1,373,849)
Elimination of encumbrances outstanding	-	(24,158,117)	-	24,158,117
Unrealized gains (losses)	4,832,087	-	-	4,832,087
Financing under capital lease	-	399,231	399,231	-
Other postemployment contributions	-	(5,034,720)	(5,034,720)	-
Conference Center activity	15,266,290	14,739,090	-	527,200
Interfund activities budgeted as transfers:				
Recreation facility maintenance costs	2,075,760	-	(2,075,760)	-
Public agency permits	-	1,143,430	1,143,430	-
Solid waste tipping fees	-	1,835,230	1,835,230	-
Community use of public facilities for elections	-	117,450	117,450	-
Component Unit activities budgeted as transfers:				
Component Units - Transfer in	598,645	-	(598,645)	-
Component Units - Transfer out	-	1,570,726,627	1,570,726,627	-
As reported - GAAP basis	$ 2,607,087,785	$ 2,500,418,066	$ (250,608,521)	$ (143,938,802)

NOTE III. DETAILED NOTES ON ALL FUNDS

A) Cash and Investments

1) Overview

The Montgomery County reporting entity total cash and investments as of June 30, 2008, totaled $4,884,534,856 of which $4,290,011,611 is related to the Primary Government, as presented below and in the government-wide financial statements. These funds are held in several pools, various non-pooled investments, and cash funds. The following is a schedule of total cash and investments:

Statement of Net Asset Amounts:	Primary Government	Component Units	Total Reporting Entity
Equity in pooled cash and investments	$ 743,181,043	$ 84,132,302	$ 827,313,345
Cash with fiscal agents	44,923,316	21,553,463	66,476,779
Cash	1,066,009	14,444,734	15,510,743
Investments - cash equivalents	-	130,591,805	130,591,805
Investments	3,459,281,136	14,521,455	3,473,802,591
Restricted equity in pooled cash and investments	36,411,912	3,096,797	39,508,709
Restricted cash with fiscal agents	-	239,491	239,491
Restricted cash	-	450,799	450,799
Restricted investments - cash equivalents	-	115,190,413	115,190,413
Restricted investments	5,148,195	210,301,986	215,450,181
Total	$ 4,290,011,611	$ 594,523,245	$ 4,884,534,856
Deposit and Investment Summary:			
Deposits	$ 98,159,005	$ 21,870,967	$ 120,029,972
Investments	4,145,863,281	409,485,312	4,555,348,593
Cash on hand, fiscal agents, safe deposit escrow	45,989,325	163,166,966	209,156,291
Total	$ 4,290,011,611	$ 594,523,245	$ 4,884,534,856

Primary Government cash and investments reconciles to the basic financial statements as follows:

Government-wide	$ 746,754,307
Fiduciary funds	3,543,257,304
Total	$ 4,290,011,611

PRIMARY GOVERNMENT

2) External Investment Pool

Overview:

The County maintains an external investment pool that is subject to oversight by the County's Internal Investment Committee, but is not subject to regulatory oversight by the Securities and Exchange Commission (SEC). Participants in the pool include the County, certain component unit agencies, and other legally separate entities. The equity position of each fund and component unit is reported as an asset by the funds and component units. The external portion of the pool (i.e., participation by legally separate entities) is reported as the Investment Trust Fund in the accompanying financial statements.

Participants' shares redeemed during the year are based on actual cost; participants' shares are then adjusted to fair value at year-end. The County has not provided or obtained any legally binding guarantees during the year to support the value of shares.

During the year, investments are stated at cost plus accrued interest and are adjusted for amortization of premiums and accretion of discounts. Investments are marked-to-market at year-end, since the pool does not meet the strict definition of "2a-7 like." The fair value of U. S. Government securities, repurchase agreements, commercial paper and bankers' acceptances are provided by the County's custodian, which are based on various industry standard pricing sources. For interest-bearing investments, market value quotations did not include accrued interest. However, for reporting purposes, immaterial amounts of accrued interest have been classified with the fair value of investments in the accompanying financial statements.

Investment income during the year, and the adjustment to fair value at year-end, is allocated to pool participants based upon their average equity in the pool. The adjustment to fair value for the current year related to all County funds (exclusive of legally separate entities' accounts reflected in the Investment Trust Fund) is recorded in the General Fund, since this amount is not material.

External investment pool amounts, included in the schedule above, are as follows:

Balance Sheet Amounts:	Primary Government	Component Units	Total Reporting Entity
Equity in pooled cash and investments	$ 743,181,043	$ 14,278,838	$ 757,459,881
Restricted equity in pooled cash and investments	36,411,912	-	36,411,912
Total	$ 779,592,955	$ 14,278,838	$ 793,871,793
Deposit and Investment Summary:			
Deposits	$ 98,159,005	$ -	$ 98,159,005
Investments, including accrued interest	681,433,950	14,278,838	695,712,788
Total	$ 779,592,955	$ 14,278,838	$ 793,871,793

Deposits:

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the County will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. State statute requires that securities underlying certificates of deposit have a market value that equals or exceeds the cost of the deposit while County investment policy requires a market value of at least 102 percent of the cost of the deposit. Appropriate sections of these cited statutes also require that funds on deposit in financial institutions be fully secured. The form of such security shall be in compliance with State statute and the County Code. Collateral pledged for protection of these banking deposits is held in the County's name at a third party depository, in the trust department of pledging banks, or insured by a surety bond by a State approved insurance company.

Deposits include bank accounts and non-negotiable certificates of deposit. Deposits at financial institutions were fully insured or collateralized at year-end.

Investments:

The County, through its external investment pool, maintains an active and sophisticated cash and investment management program. The primary objectives of the program are the preservation of capital, providing liquidity to meet financial obligations, and maximization of the investment yield on short-term working capital. Working capital is managed pursuant to the Annotated Code of Maryland, the County Code, and the County's investment policies as approved by the County Council. There were no unusual variations in the mix or volume of the investment portfolio throughout the year. The County was in compliance with all applicable investment statutes throughout the fiscal year.

Investment Type:	Fair Value	Principal	Maturity Range	Interest Range
Repurchase agreements	$ 50,000,000	$ 50,000,000	July 08	2.25 %
U. S. Government securities	300,067,013	300,059,850	July 08 - April 10	2.12 - 5.35
Commercial paper	27,752,509	27,594,128	September - December 08	2.83 - 3.02
Bankers' acceptances	147,724,356	147,246,239	July - December 08	2.39 - 2.98
Money market mutual funds	167,617,176	167,617,176	n/a	2.25 - 2.40
Total	$ 693,161,054	$ 692,517,393		

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates, the County's investment policy limits investments to maturities of one year or less. However, a portion of the portfolio may be invested in investments with longer maturities (up to two years); any investment with a maturity of over 12 months must be approved by the Director of Finance prior to execution. As of June 30, 2008, the County's investment maturities are as follows:

		Investment Maturities (in Years)	
Investment Type:	Fair Value	Less than 1	1-2
Repurchase agreements	$ 50,000,000	$ 50,000,000	$ -
U. S. Government securities	300,067,013	275,258,355	24,808,658
Commercial paper	27,752,509	27,752,509	-
Bankers' acceptances	147,724,356	147,724,356	-
Money market mutual funds	167,617,176	167,617,176	-
Total	$ 693,161,054	$ 668,352,396	$ 24,808,658

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The County is authorized to invest in: a) obligations for which the United States has pledged its full faith and credit for the payment of principal and interest, b) obligations that a federal agency or instrumentality issues in accordance with an act of Congress, or c) repurchase agreements that any of the foregoing listed obligations secures. Cited statutes also authorize investments in bankers' acceptances, secured certificates of deposit issued by Maryland banks, commercial paper of the highest investment grade, the Maryland Local Government Investment Pool (MLGIP), and money market mutual funds that are registered and operate in accordance with Rule 2a-7 and in accordance with Maryland State Code. State statutes and County policies require that these money market mutual funds invest only in obligations of U.S. Treasuries, U.S. agencies and repurchase agreements collateralized by an obligation of the United States, its agencies or instrumentalities.

As of June 30, 2008, the County's investments were rated as follows:

	Ratings		
Investment Type	Standard & Poor's	Fitch	Moody's
Repurchase agreements [1]	N/R	N/R	N/R
U.S. Government securities [2]**:**			
Agency discounts	A-1+	F1+	P-1
Federal Agricultural Mortgage Corp discount notes	N/R	N/R	N/R
Federal National Mortgage Association mortgage backed securities discount notes	N/R	N/R	N/R
Other U.S. Government securities	AAA	AAA	Aaa
Commercial paper [3]	A-1	F1	P-1
Bankers' acceptances [4]	N/R	N/R	N/R
Money market mutual funds	AAA	AAA	Aaa

N/R-Not Rated

1 Disclosure of the credit risk for the County's repurchase agreements is required since the underlying securities are not issued or explicitly guaranteed by the U.S. Government.

2 Only includes securities implicitly guaranteed by the U.S. Government.

3 Not all commercial paper is rated by all agencies. However, each commercial paper is rated by at least one rating agency. Each such rating is of the highest investment grade.

4 While the bankers' acceptances are not rated, County policy requires that the underlying issuer is of the highest short-term investment grade.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of failure of the counterparty to a transaction, the County will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, or not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent, but not in the government's name. County and State statutes require that securities underlying repurchase agreements have a market value of at least 102 percent of the cost of the investment. County policies require that a third party custodian hold investment securities and the collateral underlying all repurchase agreements. At June 30, 2008, the County's investments were not exposed to custodial credit risk.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the County's investment in a single issuer. It is the County's policy to diversify by investment type and institution in order to avoid unreasonable risks, with maximum limits as follows:

Diversification by Investment Type	Maximum percent of Portfolio*
U. S. Treasury obligations	100 %
U. S. Government agencies	50
Repurchase agreements	50
Bankers' acceptances	50
Money market mutual fund	25
Local government investment pool	25
Collateralized certificates of deposit**	25
Commercial paper	5

Diversification by Institution	Maximum percent of Portfolio*
Approved broker/dealers	50 %
Money market mutual funds by fund	25
Bankers' acceptances by country	25
Bankers' acceptances by institution	10
Commercial banks (certificates of deposit)**	10
U.S. Government agencies by agency	20

* At time of purchase

** Certificates of deposit are classified as deposits for financial reporting purposes.

As of June 30, 2008, five percent or more of the County's investments, excluding amounts issued or explicitly guaranteed by the U.S. Government, mutual funds, and pooled investments, are invested in:

Issuer	Fair Value
Bank of America	$ 75,135,581
Dreyfus	56,561,815
Federal Home Loan Bank	141,944,331
Federal National Mortgage Association	58,470,969
Morgan Stanley	125,290,177
Wachovia	72,588,775

External Investment Pool Condensed Financial Statements:

The condensed financial statements of the County's external investment pool at June 30, 2008, are as follows:

Statement of Net Assets
June 30, 2008

Assets:		
Investment in securities, at fair value		$ 693,161,054
Cash		98,159,005
Accrued interest receivable		2,551,734
Total assets and net assets		$ 793,871,793
Net assets consist of:		
Internal participants' units outstanding ($1.00 par)		$ 755,583,603
External participants' units outstanding ($1.00 par)		38,288,190
Net assets		$ 793,871,793
Participants net asset value, offering price and redemption price per share ($793,871,793 / 794,464,335 units)		$ 1.00

Statement of Changes in Net Assets
For the Fiscal Year Ended June 30, 2008

Investment Income *		$ 47,696,371
Distributions to participants:		
Distributions paid and payable		(47,696,371)
Share transactions at net asset value of $1.00 per share:		
Purchase of units	$ 5,542,082,273	
Redemption of units	(5,776,205,947)	
Net decrease in net assets and shares resulting from share transactions		(234,123,674)
Total decrease in net assets		(234,123,674)
Net assets, July 1, 2007		1,027,995,467
Net assets, June 30, 2008		$ 793,871,793

* The pool has no expenses.

3) Major and Nonmajor Fund Deposit and Investment Risks

Primary government (non fiduciary) cash and investments are primarily invested in the County's external investment pool. Major funds with significant cash and investments comprised of other than the external investment pool include the following:

Debt Service Fund - Cash with fiscal agents of $22,798,291 includes 19,445,453, which is held for approximately one day in bank accounts that are not in the County's name and are not collateralized. Per the Montgomery County Code, banks receiving County funds in trust, for the purpose of paying principal and interest on bonds or other County obligations, need not furnish security for those funds. The remaining balance of $3,352,838 represents lease revenue bond debt service reserve funds which are held in money market mutual funds and U.S Government securities. These funds, originally held in the Capital Projects Fund, were transferred to the Debt Service Fund during FY08.

Capital Projects Fund - Cash with fiscal agents of $20,480,726 is held in money market mutual funds and U.S. Government securities.

Liquor – Cash with fiscal agents of $10,569,308 at the end of FY07 was held in money market funds for the purpose of disbursement of construction costs for a temperature control warehouse. During FY08, construction on this project ceased; funds held with fiscal agents were used in April 2008 to pay off the loan and the balance reverted to operating cash in the Liquor Enterprise Fund.

There are no cash and investments in nonmajor funds with significantly greater risk exposures than those described above or those relating to the external investment pool.

4) Fiduciary Funds

Employees' Retirement System:

Investment Overview

Section 33-61C of the County Code (Code), authorizes the Board of Investment Trustees (Board) (see Note IV-F) to act with the care, skill, prudence and diligence under the circumstances that a prudent person acting in a similar capacity and familiar with the same matters would use to conduct a similar enterprise with similar purposes. The Code also requires that such investments be diversified so as to minimize the risk of large losses unless it is clearly not prudent to diversify under the circumstances. The Board has adopted an investment policy that works to control the extent of downside risk to which the Employees' Retirement System (System) is exposed while maximizing the potential for long term increases in the value of assets. The overall investment policies do not address specific levels of credit risk, interest rate risk or foreign currency risk. The Board believes that risks can be managed, but not eliminated, by establishing constraints on the investment portfolios and by monitoring the financial markets, the System's asset allocation and the investment managers hired by the System. Each investment manager has a specific benchmark and investment guidelines appropriate for the type of investments they are managing. Section 33-60 of the Code prohibits the Board from investing in any bonds, notes, or debt instruments issued by the County, any political subdivision within the County, any agency supported or financed wholly or partly by taxes levied by the Montgomery County Council, or any agency supported by bond issues underwritten by the County.

Credit Risk/Concentration of Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Board's investment policies and guidelines limit the percentage of the total fund and individual manager's account which can be invested in fixed income securities rated below investment grade. In addition, the Board's investment policies and guidelines limit the percentage of each investment manager's account that may be allocated to any one security, position, issuer or affiliated issuer, to less than 5 percent of the fair value of the investment manager's account. The System does not have investments (other than those issued or explicitly guaranteed by the U.S. Government or pooled investments) in any one organization that represent 5 percent or more of net assets held in trust for pension benefits.

The quality ratings of investments in fixed income securities as described by nationally recognized rating organizations as of June 30, 2008, are as follows:

Type of Investment	Quality Rating	Fair Value	Percentage of Portfolio
U.S. Government Obligations*	AAA	$ 265,058,334	25.66 %
	BBB	473,960	0.05
	BB	125,000	0.01
Foreign Government Obligations	AAA	151,959,282	14.71
	A	19,568,479	1.89
	BBB	5,500,690	0.53
	BB	892,052	0.09
Asset-Backed Securities	AAA	30,187,663	2.92
	AA	260,353	0.03
	BBB	2,958,096	0.29
	B	105,923	0.01
	Unrated	1,040,222	0.10
Commercial Mortgage-Backed Securities	AAA	21,404,440	2.07
	Unrated	3,899,493	0.38
Collateralized Mortgage Obligations	AAA	20,562,666	1.99
	AA	154,076	0.01
	BB	356,177	0.03
	Unrated	1,212,711	0.12
Municipal/Provincial Bonds	AA	875,646	0.08
Corporate Bonds	AAA	11,131,163	1.08
	AA	31,638,598	3.06
	A	52,772,429	5.11
	BBB	37,428,707	3.62
	BB	55,858,584	5.41
	B	71,681,709	6.94
	CCC	21,458,482	2.08
	D	61,250	0.01
	Unrated	3,221,831	0.31
Fixed Income Pooled Funds	Unrated	88,171,471	8.53
Short-term Investments and Other	N/A	133,126,014	12.88
Total Fixed Income Securities		$1,033,145,501	100.00 %

*Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not have purchase limitations.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investment. The Board's investment policies and guidelines manage interest rate risk by establishing duration constraints on each fixed income manager's portfolio based on the duration of each manager's respective benchmark. Duration is a measure of interest rate risk based on a bond price's sensitivity to a 100-basis point change in interest rates. The greater the duration of a bond, or a portfolio of bonds, the greater its price volatility will be in response to a change in interest rates and vice-versa. Duration of eight would mean that, given a 100-basis point change up/down in rates, a bond's price would move up/down by 8 percent.

As of June 30, 2008, the System's fixed income portfolio had the following sensitivity to changes in interest rates:

Type of Investment	Effective Duration in Years	Fair Value	Percentage of Portfolio
U.S. Government Obligations	6.56	$ 265,657,294	25.72 %
Foreign Government Obligations	8.89	177,920,503	17.22
Asset-Backed Securities	0.61	34,552,257	3.35
Commercial Mortgage-Backed Securities	3.89	25,303,933	2.45
Collateralized Mortgage Obligations	4.71	22,285,630	2.15
Municipal /Provincial Bonds	6.77	875,646	0.08
Corporate Bonds	4.68	285,252,753	27.62
Fixed Income Pooled Funds	N/A	88,171,471	8.53
Short-term Investments and Other	N/A	133,126,014	12.88
Total Fixed Income Securities		$1,033,145,501	100.00 %

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Board's International Investing Policy's objective is to achieve long-term capital appreciation and current income by investing in diversified portfolios of non-U.S. equities and bonds. The System has indirect exposure to foreign currency risk as follows:

International Securities	Equity	Fixed Income	Short-term and Other	Total Non-U.S. Dollar
European Currency Unit	$129,433,696	$ 68,469,213	$ (43,252,163)	$ 154,650,746
Japanese Yen	107,538,308	-	2,223,096	109,761,404
British Pound Sterling	58,437,801	47,717,508	(53,814,838)	52,340,471
Swiss Franc	25,785,689	-	21,174,756	46,960,445
Hong Kong Dollar	21,541,736	-	12,691	21,554,427
Swedish Krona	7,636,274	31,123,299	(24,228,664)	14,530,909
Danish Krone	6,275,854	-	-	6,275,854
Malaysian Ringgit	2,834,680	1,592,858	-	4,427,538
Brazilian Real	-	2,064,924	-	2,064,924
Candian Dollar	4,677,870	29,312,624	(36,533,106)	(2,542,612)
Other Currencies	23,695,628	6,827,852	(35,868,788)	(5,345,308)
Total International Securities	$387,857,536	$187,108,278	$(170,287,016)	$ 404,678,798

Derivatives

The System invests in derivative instruments on a limited basis in accordance with the Board's Derivatives Policy. During FY08, the System invested directly in various derivatives including asset-backed securities, collateralized mortgage obligations, exchange-traded future contracts, forward currency contracts, swaps, and floating rate securities. Investment managers are prohibited from purchasing securities on margin or using leverage unless specifically permitted within the investment manager's guidelines. The System entered into these investments either to increase earnings or to hedge against potential losses. These investments generally contain market risk resulting from fluctuations in interest and currency rates. The credit risk of these investments is associated with the creditworthiness of the related parties to the contracts. The System could be exposed to risk if the counterparties to the contracts are unable to meet the terms of the contracts. The Board's Derivatives Policy seeks to control this risk through counterparty credit evaluations and approvals, counterparty credit limits and exposure monitoring procedures. In addition, the System has indirect exposure to market and credit risk through its ownership interests in certain mutual and commingled funds which may hold derivative financial instruments.

As permitted by the Board's policies, the System holds off-financial statement derivatives in the form of exchange-traded financial futures and options. The futures and options with net negative fair values of approximately $2,168,000 are held for investment purposes and included within the financial statements at June 30, 2008. Gains and losses on futures and options are determined based upon fair values and recorded in the Statement of Changes in Plan Net Assets.

Interest rate swaps, foreign currency exchange swaps, and forward foreign currency exchange contracts are held for investment purposes. At June 30, 2008, the System had approximately $90,735,000 net exposure in foreign currency exchange and interest rate swaps and $157,418,000 negative net exposure in forward foreign currency exchange contracts.

Securities Lending

Board policy permits the System to lend its securities to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The System's custodian is the agent in lending the System's securities for collateral of 102 percent for domestic and 105 percent for international securities. The custodian receives cash, securities or irrevocable bank letters of credit as collateral. All securities loans can be terminated on demand by either the System or the borrower. Cash collateral received from the borrower is invested by the lending agent, as an agent for the System, in a short-term investment pool in the name of the System, with guidelines approved by the Board. Such investments are considered a collateralized investment pool. The relationship between the maturities of the investment pool and the System's loans is affected by the maturities of securities loans made by other plan entities that invest cash collateral in the investment pool, which the System cannot determine. The System records a liability for the return of the cash collateral shown as collateral held for securities lending in the statement of net assets. The Board does not restrict the amount of loans the lending agent may make on its behalf. The agent indemnifies the System by agreeing to purchase replacement securities, or return the cash collateral thereof, in the event a borrower fails to return loaned securities or pay distributions thereon. There were no such failures by any borrower during the fiscal year, nor were there any losses during the period resulting from a default of the borrower or lending agent.

As of June 30, 2008, the fair value of securities on loan was $346,642,441. Cash received as collateral and the related liability, included in accounts payable, of $347,037,914 as of June 30, 2008, are reported on the Statement of Plan Net Assets. Securities received as collateral are not reported as assets since the System does not have the ability to pledge or sell the collateral securities absent borrower default. Securities lending revenues and expenses amounting to $14,577,497 and $12,820,730, respectively, have been classified with investment income and investment expenses, respectively, in the accompanying financial statements.

The following represents the balances relating to the securities lending transactions at June 30, 2008:

Securities Lent	Underlying Securities	Non-Cash Collateral Value	Cash Collateral Investment Value
Lent for Cash Collateral:			
U.S. Government Obligations	$ 91,591,441	$ -	$ 93,555,085
Foreign Government Obligations	1,196,492	-	1,267,574
Corporate Bonds	69,393,765	-	71,265,901
Equities	174,485,453	-	180,949,354
Lent for Non-Cash Collateral:			
U.S. Government Obligations	3,437,316	3,519,916	-
Corporate Bonds	6,518	6,674	-
Equities	6,531,456	6,885,816	-
Total	$346,642,441	$ 10,412,406	$ 347,037,914

At year-end, the System has no credit risk exposure to borrowers because the amounts the System owes the borrowers exceeded the amounts the borrowers owe the System. The System is fully indemnified by its custodial bank against any losses incurred as a result of borrower default.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At June 30, 2008, there were no funds held by a counterparty that was acting as the System's agent in securities lending transactions.

Employees' Retirement Savings Plan:

Section 33-125 of the Code authorizes the Board to establish a diversified slate of mutual and commingled investment funds from which participants may select an option. The Board exercises the Standard of Care as delineated in Section 33-61 of the Code. As of June 30, 2008, the fair value of the mutual and commingled investment funds was $126,576,941. The fair value of the investments in international mutual funds was $21,053,000.

Employees' Deferred Compensation Plan:

The Board is required to establish a diversified slate of mutual and commingled funds from which participants may select investment options. The Board exercises the Standard of Care as delineated in Section 33-61 of the Code. As of June 30, 2008, the fair value of the mutual and commingled investment funds was $241,093,028. The fair value of the investments in international mutual funds included in the County Plan was $35,912,000.

Retiree Health Benefits Trust:

Section 33-162 of the Code authorizes the Board to establish a diversified slate of mutual and commingled investment funds. The Board exercises the Standard of Care as delineated in Section 33-61 of the Code. As of June 30, 2008, the fair value of the mutual and commingled funds was $13,566,372. The fair value of the investment in international mutual funds was $4,694,600.

COMPONENT UNITS

HOC:

At year-end, HOC's cash and investments are significant in relation to the total component unit cash and investments. HOC's cash balances as of June 30, 2008, were entirely insured or collateralized with securities held by HOC's agent in HOC's name. HOC's investments are subject to interest rate, credit, and custodial risk as described below:

Interest Rate Risk

HOC's investment policy which applies to the General Fund, Public Fund and the Opportunity Housing Fund, requires that the majority of HOC's investments must be on a short-term basis (less than one year); however a portion of the portfolio may be invested in investments with longer maturities (up to two years). The investment requirements for the Multi-Family Fund and Single Family Fund are specified within each of the bond trust indentures. The bond trustee is required to invest money in obligations with the objective that sufficient money will be available to pay the interest due on the bonds and will mature or be subject to redemption with the objective that sufficient money will be available for the purposes intended in accordance with the Indenture.

Credit Risk

HOC's investment policy for the General Fund, Public Fund and the Opportunity Housing Fund permits the following investment types: U.S. government and federal agencies; repurchase agreements; banker's acceptances; money market mutual funds; Maryland local government investment pool; Montgomery County investment pool; certificate of deposits and time deposits; and commercial paper. Bankers Acceptances of domestic banks and commercial paper must maintain the highest rating from one of the Nationally Recognized Statistical Rating Organizations (NRSRO) as designated by the SEC or State Treasurer. Repurchase agreements require collateralization at 102% of the principal amount by an obligation of the United States, its agencies or instrumentalities provided the collateral is held by a custodian, other than the seller. Certificates of deposit or time deposits must be collateralized at 102% of the fair value and held by a custodian other than the seller. HOC invests in the Montgomery County Local Government Investment Pool (County external investment pool) and the Maryland State Local Government Investment Pool (MLGIP). The MLGIP is not subject to regulatory oversight by the SEC, however the MGLIP is operated pursuant to the annotated code of Maryland.

The Single Family and Multi-Family Bond Funds require that the trustee invest moneys on deposit under the indenture in investment obligations as defined by the respective bond indenture agreements. Investment obligations are defined as the following: (i) Government obligations; (ii) bond debentures or other obligation issued by government agencies or corporations; (iii) time deposits or certificate of deposits insured by the Federal Deposit Insurance Corporation; (iv) repurchase agreements backed by obligations described in (i) and (ii) above; (v) investment agreements; (vi) tax exempt obligations; and (vii) money market funds.

Custodial Risk

Amounts held in trust accounts and other demand accounts are covered by federal depository insurance, or collateralized at a level of at least 102% of fair value of principal and accrued interest. Repurchase agreement collateral for the MLGIP is segregated and held in the name of Mercantile-Safe Deposit and Trust's account at the Federal Reserve Bank.

At June 30, 2008, HOC had the following cash, cash equivalents, investments and maturities:

Cash Equivalents	Fair Value	Less than 1 year
Cash Equivalents:		
General Fund:		
Repurchase Agreement	$ 8,974,186	$ 8,974,186
Money Market Accounts	7,260,033	7,260,033
U. S. Treasury Bills	8,252,142	8,252,142
Opportunity Housing Fund:		
Investment in County External Investment Pool	8,362,401	8,362,401
Investment in MLGIP	396,534	396,534
Money Market Accounts	18,621,610	18,621,610
Public Fund:		
Investment in MLGIP	4,546,849	4,546,849
Money Market Accounts	12,487,279	12,487,279
Multi-Family Fund - Money Market Accounts	49,294,711	49,294,711
Single Family Fund - Money Market Accounts	48,755,230	48,755,230
Total	$ 166,950,975	$ 166,950,975
Short-term Investments:		
Multi-Family Fund:		
GNMA Pool	943,454	943,454
US Treasuries	297,897	297,897
Single Family Fund:		
DEPFA Repurchase Agreement	35,206,661	35,206,661
Royal Bank of Canada	4,335,407	4,335,407
Society General Repurchase Agreement	3,529,620	3,529,620
Total	$ 44,313,039	$ 44,313,039

Long-Term Investments	Fair Value	1-5 years	Long-Term	Rating
Long-term Investments:				
Multi-Family Fund:				
Bank One Investment Agreement	$ 591,526	$ -	$ 591,526	AA/Aa2
Citigroup Global Markets	2,602,247	-	2,602,247	AAA
Freddie Mac	3,600,886	2,217,888	1,382,998	AAA
Fannie Mae	3,715,661	-	3,715,661	AAA
GNMA Pool	69,189,469	-	69,189,469	AAA
U. S. Treasury Bond	2,644,314	-	2,644,314	AAA
Single Family Fund:				
Federal Farm Credit Banks	5,769,248	-	5,769,248	AAA
Federal Home Loan Banks	1,565,231	153,337	1,411,894	AAA
Fannie Mae	890,317	-	890,317	AAA
Solomon Repurchase Agreement	2,345,800	-	2,345,800	AA1
Tennessee Valley Authority	3,385,938	-	3,385,938	AAA
Trinity Plus Investment Agreement	61,304,551	61,304,551	-	AAA
U. S. Treasury Bond	8,383,759	1,011	8,382,748	AAA
Total	165,988,947	63,676,787	102,312,160	
Cash balances	4,227,475			
Total Cash, Cash Equivalents and Investments	$ 381,480,436			

B) Receivables

1) Accounts Receivable

The allowance for doubtful accounts at June 30, 2008, reported in the enterprise funds, amounted to:

Liquor	$ 240,716
Solid Waste Activities	12,064
Parking Lot Districts	2,203,243
	$ 2,456,023

2) Due from/to Component Units

The balances at June 30, 2008, were:

Due from Component Units /
Due to Primary Government:

Due from Component Units:	MCPS	MCC	MCRA	HOC	BUPI	Total
Due to Primary Government:						
General	$ 328,802	$ 1,125,000	$ -	$ 1,399,080	$ -	$ 2,852,882
Capital Projects	-	-	-	13,362,174	-	13,362,174
Solid Waste Activities Enterprise	52,474	681	-	1,243	2,704	57,102
Nonmajor Governmental	-	-	-	50,005,149	-	50,005,149
Internal Service	94,218	8,132	215,099	383,449	12,186	713,084
Fiduciary	-	-	21,147	180,531	-	201,678
Total Due to Primary Government	$ 475,494	$ 1,133,813	$ 236,246	$ 65,331,626	$ 14,890	$ 67,192,069

Due to Component Units /
Due from Primary Government:

Due to Component Units:	MCPS	MCC	MCRA	HOC	BUPI	Total
Due from Primary Government:						
General	$ 3,328,729	$ 86,663	$ 15,000	$ 456,368	$ -	$ 3,886,760
Capital Projects	51,324,698	11,268,114	-	760,017	-	63,352,829
Nonmajor Governmental	533,952	133,195	-	108,099	68,342	843,588
Nonmajor Enterprise	665,892	-	-	-	-	665,892
Total Due from Primary Government	$ 55,853,271	$ 11,487,972	$ 15,000	$ 1,324,484	$ 68,342	$ 68,749,069

In the nonmajor governmental funds, $39,929,777 due from HOC to the Housing Initiative Special Revenue Fund represents mortgage loans, which are generally repayable based on project cash flows, specified future dates, or sales of the respective properties. Included in this amount is a loan of $2,213,324, for which payments are based on cash flows. Terms of the note stipulate that the balance of the note will be forgiven at the termination of the ground lease in December 2035. To date the project has not generated cash flows. This loan is offset by deferred revenue. Also included in the amount above is a ground lease, upon which is located affordable housing owned by HOC. The ground lease provides for lease payments from HOC for $1 per year for 83 years. Fund balance has been reserved for the remaining loans.

3) <u>Due From Other Governments</u>

The total amount due from other governments at June 30, 2008, was comprised of the following:

	General	Capital Projects	Solid Waste Activities	Nonmajor Governmental	Internal Service	Fiduciary	Total
Federal government	$ -	$ 1,333,489	$ 57	$ 7,586,733	$ -	$ 1,953,381	$ 10,873,660
State of Maryland	23,140,802	8,693,980	5,877	1,683,888	20,820	25,320	33,570,687
Other	55,660	515,546	137,761	636,747	230,438	11,786	1,587,938
Total	$ 23,196,462	$ 10,543,015	$ 143,695	$ 9,907,368	$ 251,258	$ 1,990,487	$ 46,032,285

C) Capital Assets

PRIMARY GOVERNMENT

Capital asset activity for the year ended June 30, 2008, was as follows:

	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008
Governmental Activities				
Nondepreciable Capital Assets:				
Land	$ 570,094,938	$ 35,776,354	$ -	$ 605,871,292
Construction in progress	175,087,781	116,033,847	33,284,452	257,837,176
Total Nondepreciable Capital Assets	745,182,719	151,810,201	33,284,452	863,708,468
Depreciable Capital Assets:				
Buildings	748,176,572	1,876,437	316,932	749,736,077
Improvements other than buildings	45,625,200	364,095	5,000	45,984,295
Furniture, fixtures, equipment and machinery	226,685,089	8,727,919	2,577,001	232,836,007
Leasehold improvements	12,777,902	-	-	12,777,902
Automobiles and trucks	203,713,509	22,630,681	7,163,840	219,180,350
Infrastructure	1,532,498,928	28,150,753	62,846	1,560,586,835
Other assets	2,079,731	-	-	2,079,731
Total Capital Assets being Depreciated	2,771,556,931	61,749,885	10,125,619	2,823,181,197
Less Accumulated Depreciation for:				
Buildings	245,958,684	19,749,852	315,732	265,392,804
Improvements other than buildings	15,687,394	1,322,950	-	17,010,344
Furniture, fixtures, equipment and machinery	108,829,835	22,920,531	2,526,622	129,223,744
Leasehold improvements	2,076,248	810,745	-	2,886,993
Automobiles and trucks	99,104,209	15,541,122	6,861,109	107,784,222
Infrastructure	415,837,320	30,955,428	-	446,792,748
Other assets	1,491,578	207,973	-	1,699,551
Total Accumulated Depreciation	888,985,268	91,508,601	9,703,463	970,790,406
Total Depreciable Assets, net	1,882,571,663	(29,758,716)	422,156	1,852,390,791
Governmental Activities Capital Assets, net	$ 2,627,754,382	$ 122,051,485	$ 33,706,608	$ 2,716,099,259
Business-Type Activities				
Nondepreciable Capital Assets:				
Land	$ 52,777,663	$ -	$ -	$ 52,777,663
Construction in progress	7,757,660	6,299,232	11,526,776	2,530,116
Total Nondepreciable Capital Assets	60,535,323	6,299,232	11,526,776	55,307,779
Depreciable Capital Assets:				
Buildings	211,252,606	7,658,786	-	218,911,392
Improvements other than buildings	122,964,916	3,551,974	-	126,516,890
Furniture, fixtures, equipment and machinery	19,274,297	3,246,834	898,423	21,622,708
Infrastructure	14,351	-	-	14,351
Automobiles and trucks	4,380,211	529,808	748,420	4,161,599
Total Capital Assets being Depreciated	357,886,381	14,987,402	1,646,843	371,226,940
Less Accumulated Depreciation for:				
Buildings	80,900,472	7,190,323	-	88,090,795
Improvements other than buildings	97,113,279	3,303,076	-	100,416,355
Furniture, fixtures, equipment and machinery	13,205,951	1,578,512	881,810	13,902,653
Infrastructure	430	574	-	1,004
Automobiles and trucks	3,109,654	255,049	748,420	2,616,283
Total Accumulated Depreciation	194,329,786	12,327,534	1,630,230	205,027,090
Total Depreciable Assets, net	163,556,595	2,659,868	16,613	166,199,850
Business-Type Activities Capital Assets, net	$ 224,091,918	$ 8,959,100	$ 11,543,389	$ 221,507,629

Depreciation expense was charged to the functions of the primary government as follows:

Governmental activities:		
General government	$	10,709,602
Public safety		26,556,838
Public works and transportation		43,249,586
Health and human services		1,706,433
Culture and recreation		8,100,930
Community development and housing		986,240
Environment		198,972
Total depreciation expense-governmental activities	$	91,508,601

Business-type activities:		
Liquor	$	875,849
Solid waste activities		2,218,544
Parking lot districts		9,083,854
Permitting services		146,942
Community use of public facilities		2,345
Total depreciation expense-business-type activities	$	12,327,534

Construction commitments as of June 30, 2008, are as follows:

General Government	$	20,076,881
Public Safety		25,859,631
Public Works and Transportation		47,489,943
Health and Human Services		39,137
Culture and Recreation		11,808,756
Community Development and Housing		3,594,704
Environment		1,978,941
Total	$	110,847,993

COMPONENT UNITS

Capital assets of MCPS, amounting to $1,799,836,398 at June 30, 2008, are significant in relation to the total component unit capital assets.

	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008
Governmental Activities				
Nondepreciable capital assets:				
Land	$ 68,140,624	$ 723,787	$ 3,162	$ 68,861,249
Construction in progress	176,607,831	187,407,862	208,825,151	155,190,542
Total nondepreciable capital assets	244,748,455	188,131,649	208,828,313	224,051,791
Depreciable capital assets:				
Buildings and improvements	1,833,443,883	192,822,552	9,960,206	2,016,306,229
Site improvements	153,795,119	13,835,680	162,538	167,468,261
Vehicles and equipment	136,763,779	14,192,163	3,626,200	147,329,742
Total depreciable capital assets	2,124,002,781	220,850,395	13,748,944	2,331,104,232
Less accumulated depreciation for:				
Buildings and improvements	603,422,551	45,965,084	5,972,164	643,415,471
Site improvements	31,096,868	3,545,329	58,046	34,584,151
Vehicles and equipment	72,756,200	13,346,160	3,429,061	82,673,299
Total accumulated depreciation	707,275,619	62,856,573	9,459,271	760,672,921
Total depreciable capital assets, net	1,416,727,162	157,993,822	4,289,673	1,570,431,311
Government activities capital assets, net	$1,661,475,617	$346,125,471	$213,117,986	1,794,483,102
Business-Type Activities				
Depreciable capital assets:				
Buildings	$ 17,831	$ -	$ -	17,831
Vehicles and equipment	19,568,909	1,030,976	1,856,657	18,743,228
Total depreciable capital assets	19,586,740	1,030,976	1,856,657	18,761,059
Less accumulated depreciation for:				
Buildings	13,373	1,783	-	15,156
Vehicles and equipment	13,883,689	1,177,020	1,668,102	13,392,607
Total accumulated depreciation	13,897,062	1,178,803	1,668,102	13,407,763
Business-type activities capital assets, net	$ 5,689,678	$ (147,827)	$ 188,555	5,353,296
Total MCPS government-wide capital assets				$ 1,799,836,398

Depreciation expense of MCPS was charged to functions/programs as follows:

Governmental activities:	
Regular instruction	$ 51,557,513
Special education	276,589
School administration	48,619
Student personnel services	5,468
Student transportation	8,144,494
Operation of plant	167,524
Maintenance of plant	885,105
Administration	1,771,261
Total depreciation expense-governmental activities	$ 62,856,573
Business-type activities:	
Food services	$ 1,159,360
Entrepreneurial	17,660
Real estate management	1,783
Total depreciation expense-business type activities	$ 1,178,803

Commitments for ongoing construction in progress at June 30, 2008, were $161,307,343.

D) <u>Interfund Receivables, Payables, and Transfers</u>

The composition of interfund receivables and payables as of June 30, 2008, is as follows:

	Due From Fund					
Due To Fund	General	Solid Waste Activities	Nonmajor Governmental	Internal Service	Fiduciary	Total
General	$ -	$ 1,604	$ -	$ 4,308,266	$ 6,587,496	$ 10,897,366
Debt Service	18,666,398	-	778,602	-	-	19,445,000
Capital Projects	15,285,899		3,612,098	105,346	109,494	19,112,837
Liquor	-	1,082	-	195,374	159,370	355,826
Solid Waste Activities	-	-	-	72,850	82,254	155,104
Parking Lot Districts	-	2,632	-	24,920	23,718	51,270
Nonmajor Governmental	-	32	-	1,902,785	3,164,875	5,067,692
Nonmajor Enterprise	-	-	-	167,088	240,926	408,014
Internal Service	-	-	-	190,225	1,721,326	1,911,551
Fiduciary	-	-	-	2,386	759	3,145
Total	$ 33,952,297	$ 5,350	$ 4,390,700	$ 6,969,240	$ 12,090,218	$ 57,407,805

Included in the amounts presented above are the following short-term loans from the General Fund that were or will be repaid during FY09:

- $13.8 million to the Capital Projects Fund to cover construction payments, due primarily to the timing of reimbursements from Federal, State and other agencies, and to lag time between programming and collection of certain impact taxes; and
- $18.7 million to the Debt Service Fund relating to a debt service payment due on the first day of the next fiscal year, that must be remitted to the County’s fiscal agent one working day prior to the debt service due date.

Remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund transfers for the year ended June 30, 2008, consisted of the following:

	Transfers In Fund						
	General	Debt Service	Capital Projects	Liquor	Solid Waste	Parking Lot Districts	Subtotal Major
Transfers Out Fund							
General	$ -	$ 215,900,200	$ 43,259,243	$ 1,781,040	$ 462,360	$ 621,831	$ 262,024,674
Debt Service	-	-	5,763,222	-	-	-	5,763,222
Capital Projects	-	3,349,425	-	-	-	-	3,349,425
Liquor	22,150,050	-	-	-	-	-	22,150,050
Solid Waste Activities	1,805,300	-	-	-	-	-	1,805,300
Parking Lot Districts	497,670	-	331,390	-	-	-	829,060
Nonmajor Governmental	13,394,480	22,699,989	9,124,879	-	-	-	45,219,348
Nonmajor Enterprise	3,281,650	-	-	-	-	-	3,281,650
Internal Service Funds	-	-	-	-	-	-	-
Total	$ 41,129,150	$ 241,949,614	$ 58,478,734	$ 1,781,040	$ 462,360	$ 621,831	$ 344,422,729

	Transfers In Fund				
	Nonmajor Governmental	Nonmajor Enterprise	Internal Service	Subtotal Major	Total
Transfers Out Fund					
General	$ 26,366,223	$ 1,400,720	$ 2,744,516	$ 262,024,674	$ 292,536,133
Debt Service	-	-	-	5,763,222	5,763,222
Capital Projects	-	-	-	3,349,425	3,349,425
Liquor	-	-	18,225	22,150,050	22,168,275
Solid Waste Activities	-	-	-	1,805,300	1,805,300
Parking Lot Districts	8,625,837	-	-	829,060	9,454,897
Nonmajor Governmental	5,884,460	-	43,816	45,219,348	51,147,624
Nonmajor Enterprise	-	-	-	3,281,650	3,281,650
Internal Service Funds	-	-	-	-	-
Total	$ 40,876,520	$ 1,400,720	$ 2,806,557	$ 344,422,729	$ 389,506,526

Primary activities include:

- Transfers from the General and various non-major governmental funds to the Debt Service Fund to provide funding for debt service principal and interest payments;
- Transfers of current receipt and pay-go funding from the General Fund to the Capital Projects Fund;
- Transfer of Liquor Enterprise Fund profits to the General Fund; and
- Transfer of certain revenues in excess of statutory formulas from the General Fund to the Revenue Stabilization Special Revenue Fund.

Included in the amounts above is $20,868,360 contributed by the General Fund to the Housing Initiative Special Revenue Fund to provide supplemental funding to the program.

Transfers at the government-wide financial statement level include $399,231 associated with the General Fund and Silver Spring Parking Lot District (SSPLD) relating to general governmental capital lease obligations for capital assets accounted for in the SSPLD. At the fund level, such transfers are classified as capital contributions in the SSPLD, and expenditures and an other financing source in the General Fund, in accordance with generally accepted accounting principles (see Note III-E3).

E) Leases

1) Operating Leases

The County leases buildings and office facilities and other equipment under non-cancelable operating leases. Lease agreements typically provide for automatic termination on July 1 of any year in which funds to meet subsequent rental payments are not appropriated. Total costs for operating leases were approximately $13,571,000 for FY08. Future minimum lease payments under significant non-cancelable operating leases are as follows:

Fiscal Year Ending June 30	
2009	$16,747,000
2010	13,733,000
2011	10,756,000
2012	9,714,000
2013	4,786,000
2014 - 2018	6,920,000
2019 - 2023	197,000
2024 - 2026	99,000
Total	$62,952,000

2) Capital Lease Receivable

Pursuant to the issue of the 2002 Lease Revenue Bonds and 2004 Lease Revenue Bonds (See Note III-F7), the County is obligated to lease the Shady Grove and Grosvenor Metrorail Garage Projects to WMATA at amounts calculated to be sufficient in both time and amount to pay, when due, the principal of and interest on the bonds. Separate lease agreements were executed in conjunction with each bond issue. The leases associated with the 2002 and 2004 bond issues have original terms of 22 years and 20 years, respectively, both ending on June 1, 2024.

The composition of the capital lease receivable is as follows:

	Shady Grove	Grosvenor	Total
Minimum lease payments receivable	$ 26,625,788	$26,182,126	$52,807,914
Unearned lease income	(8,132,299)	(8,005,615)	(16,137,914)
Net investment in direct financing leases	$ 18,493,489	$18,176,511	$36,670,000

At June 30, 2008, the minimum future lease payments due under the direct financing capital lease agreements are as follows:

Fiscal Year Ending June 30	
2009	$ 3,295,276
2010	3,294,214
2011	3,292,009
2012	3,296,303
2013	3,300,252
2014-2018	16,553,800
2019-2023	16,686,450
2024	3,089,610
Total minimum lease payments	$ 52,807,914

3) <u>Capital Lease Obligations</u>

The County has entered into various lease agreements as lessee with the Montgomery County Revenue Authority (MCRA) for financing the construction or acquisition of certain County facilities. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception dates of the leases.

The assets acquired and placed in service through MCRA capital leases are as follows:

Land	$ 13,449,033
Land improvements	1,673,621
Buildings	53,783,181
Furniture, fixtures, equipment and machinery	159,291
Subtotal	69,065,126
Less accumulated depreciation	(20,105,041)
Total asset value under capital leases	$ 48,960,085

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2008, are as follows:

Fiscal Year Ending June 30	
2009	$ 5,194,455
2010	5,203,801
2011	4,859,933
2012	4,862,605
2013	3,955,329
2014-2018	14,875,751
2019-2023	8,645,900
Total minimum lease payments	47,597,774
Less: amount representing interest	(11,837,774)
Present value of minimum lease payments	$ 35,760,000

Included in the schedules above are amounts relating to the Montgomery County Conference Center, which was opened during FY05. The Maryland Stadium Authority (MSA) also participated in financing the construction through the issuance of long-term debt. The County recognized the MSA contribution of $19,719,328 as revenue when the Conference Center opened. The ownership of the Conference Center will transfer to the County at the end of the MCRA lease term.

The County has entered into a lease agreement as lessee with the Maryland Economic Development Corporation (MEDCO) to lease from MEDCO the Town Square Garage 61 and Wayne Avenue Garages, located in the Silver Spring Parking Lot District (SSPLD). The construction of these garages is being funded through the issuance of lease revenue bonds by MEDCO. The ownership of the garages will transfer to the County at the end of the lease term. Although this capital lease is a general governmental obligation, the asset is reflected in the SSPLD, as required by law, and is offset by a capital contribution. For government-wide financial statement purposes, the capital lease obligation in the governmental activities and capital asset in the business-type activities are offset by transfers out and transfers in, respectively, since any amounts that ultimately may be repaid by the SSPLD are not expected to be repaid within a reasonable time.

The assets acquired through this capital lease are as follows:

	Town Square	Wayne Avenue	Total
Buildings	$29,972,673	$ 29,601,352	$59,574,025
Less accumulated depreciation	(3,723,951)	(3,883,848)	(7,607,799)
Total asset value under capital leases	$26,248,722	$ 25,717,504	$51,966,226

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2008, are as follows:

Fiscal Year Ending June 30	Town Square	Wayne Ave	Total
2009	$ 2,477,591	$ 3,075,925	$ 5,553,516
2010	2,476,851	3,113,475	5,590,326
2011	2,470,554	3,073,775	5,544,329
2012	2,469,739	3,084,425	5,554,164
2013	2,461,668	3,113,219	5,574,887
2014-2017	9,788,878	12,410,756	22,199,634
Total minimum lease payments	22,145,281	27,871,575	50,016,856
Less: amount representing interest	(3,850,281)	(5,476,575)	(9,326,856)
Present value of minimum lease payments	$ 18,295,000	$ 22,395,000	$ 40,690,000

The County entered into a capital lease agreement with Banc of America Public Capital Corporation, to finance the construction of a temperature-controlled liquor warehouse for the Department of Liquor Control (DLC). This lease agreement qualified as a capital lease for accounting purposes and, therefore, was recorded at the present value of the future minimum lease payments as of the inception date of the lease. The obligations of the County under this financing agreement were payable from the DLC revenues. The ownership of the warehouse was to transfer to the County at the end of the lease agreement. During FY08, the project was suspended in anticipation of moving the DLC operations and warehouse to another location within the County. In April 2008, the capital lease was paid off with the funds held with the fiscal agent.

F) Long-Term Debt

PRIMARY GOVERNMENT

1) General Obligation Bonds Payable

General obligation bonds are authorized, issued, and outstanding for the following purposes: (1) General County Facilities, (2) Roads and Storm Drainage, (3) Parks, (4) Public Schools, (5) Community College, (6) Consolidated Fire Tax District, (7) Mass Transit Facilities, (8) Public Housing Facilities, and (9) Parking Facilities. All bonds are valid and legally binding general obligations of the County, and constitute an irrevocable pledge of its full faith and credit and unlimited taxing power. Such bonds are payable from ad valorem taxes, unlimited as to rate or amount, on all real, tangible personal, and certain intangible property that is subject to taxation at full rates for local purposes in the County.

Proceeds from general obligation bonds for public schools and the community college are appropriated by the County Council to MCPS and MCC (component units), respectively, and remitted to such component units by the County. For GAAP purposes, proceeds from debt issuance for these purposes and any related expenditures incurred and reimbursed to the component units are reflected as other financing sources and expenditures, respectively, in the accompanying fund financial statements. These amounts are not budgeted by the County since this activity is appropriated for budget purposes to the component units. Any general obligation bond proceeds, not yet expended by the component units at year end, is reflected as Reserved Fund Balance of the Capital Projects Fund.

On March 6, 2008, the County issued $70,295,000 in general refunding bonds dated March 12, 2008. These bonds were issued with a true interest cost of 2.88%, to current refund $72,775,000 of general obligation (GO) refunding bonds that were previously issued. A detail listing of these refunded bonds is as follows:

	Dated Date	Original Maturity	True Interest Cost	Originally Issued	Years Refunded	Amount Refunded
GO Bonds	4/1/1998	1999-18	4.7607	$ 115,000,000	2009	$ 5,750,000
GO Bonds	1/1/1998	2003-15	4.64	69,510,000	2009-2015	61,025,000
GO Bonds	4/1/1999	2000-19	4.476	120,000,000	2011	6,000,000
				$ 304,510,000		$ 72,775,000

The net proceeds of the general obligation refunding bonds were used to purchase direct obligations, or obligations on which the timely payment of principal and interest is unconditionally guaranteed by the United States of America. These government obligations have been deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the bonds that were refunded. As a result, the refunded bonds are considered to be defeased and the liability for those bonds has been removed from the governmental activities column of the statements of net assets.

The reacquisition price exceeded the net carrying amount of the old debt by $1,976,270. This amount is being netted against the new debt and amortized over the remaining life of the new debt.

Fiscal Year	Refunded Debt Service Requirements	Refunding Debt Service Requirements	Debt Service Savings
2008	$ 282,656	$ -	$ 282,656
2009	15,541,165	12,503,974	3,037,191
2010	14,182,103	14,178,000	4,103
2011	19,549,102	19,545,000	4,102
2012	12,634,603	12,630,750	3,853
2013	11,998,082	11,994,500	3,582
2014	5,611,318	5,607,500	3,818
2015	5,302,880	5,302,500	380
Total	$ 85,101,909	$ 81,762,224	$ 3,339,685

The present value of the above debt service savings (or economic gain) is $3,164,044.

In November 2001, $143,000,000 in general obligation bonds, which mature in FY09 and beyond, were defeased. In November 2002, $95,750,000 in general obligation bonds, which mature in FY07 and beyond, were defeased. These defeasances were affected by placing the proceeds of general obligation refunding bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in these financial statements. As of June 30, 2008, $45,500,000, and $12,500,000 respectively, in general obligation bonds referred to above are considered to be defeased.

General obligation bond issues outstanding as of June 30, 2008, are as follows:

Dated Date	Maturity	Interest Rate	Originally Issued	Balance June 30, 2008	Unamortized Premium **	Unamortized Deferred Difference	Carrying Value June 30, 2008
07/01/92 *	1993-10	2.75 - 5.8	$ 273,038,054	$ 12,903,054	$ -	$ -	$ 12,903,054
04/01/99	2000-19	4.0 - 5.0	120,000,000	12,000,000	-	-	12,000,000
01/01/00	2001-20	5.0 - 6.0	130,000,000	19,500,000	-	-	19,500,000
02/01/01	2002-21	4.0 - 5.0	140,000,000	35,000,000	-	-	35,000,000
11/15/01 *	2003-19	3.6 - 5.25	146,375,000	126,735,000	3,938,718	(5,045,656)	125,628,062
02/01/02	2003-22	3.0 - 5.0	160,000,000	56,000,000	973,477	-	56,973,477
11/15/02 *	2005-13	2.75 - 5.25	93,595,000	65,060,000	2,687,522	(2,031,708)	65,715,814
05/01/03	2004-23	1.5 - 4.0	155,000,000	116,250,000	788,047	-	117,038,047
05/01/03*	2004-11	2.0 - 5.0	49,505,000	23,790,000	675,208	(305,312)	24,159,896
03/15/04	2005-24	3.0 - 5.0	154,600,000	123,680,000	6,749,110	-	130,429,110
08/15/04*	2008-17	3.0 - 5.25	97,690,000	97,690,000	4,270,630	(5,228,425)	96,732,205
05/15/05	2006-25	4.0 - 5.0	200,000,000	170,000,000	10,517,971	-	180,517,971
06/01/05*	2005-16	3.781	120,355,000	120,355,000	10,858,657	(8,913,887)	122,299,770
05/01/06	2006-17	3.871	100,000,000	80,000,000	3,439,631	-	83,439,631
05/01/07	2007-27	4.082	250,000,000	237,500,000	16,761,372	-	254,261,372
3/12/2008*	2009-15	2.750 - 5.0	70,295,000	70,295,000	4,075,619	(1,789,742)	72,580,877
Total			$ 2,260,453,054	$ 1,366,758,054	$ 65,735,962	$ (23,314,730)	$ 1,409,179,286

* Issue represents refunding bonds.

** GAAP require amortization of premiums and issue costs to occur prospectively, beginning with the year of implementation. As a result, unamortized premiums and issue costs for issues prior to FY02, are not reflected above.

Changes in general obligation bonds during FY08 are as follows:

	Balance July 1, 2007	Bonds Issued	Bonds Retired	Bonds Refunded	Balance June 30, 2008
Governmental Activities:					
General County	$ 244,658,292	$ 4,948,767	$ 20,853,737	$ 5,814,174	$ 222,939,148
Roads and Storm Drainage	355,875,590	14,698,685	36,547,576	15,262,890	318,763,809
Parks	54,370,466	3,444,455	4,668,294	3,422,120	49,724,507
Public Schools	757,663,296	40,841,395	72,389,741	42,111,455	684,003,495
Community College	62,707,247	5,201,830	4,636,903	4,979,142	58,293,032
Consolidated Fire Tax District	25,940,548	330,388	2,281,902	351,817	23,637,217
Mass Transit	11,100,680	829,480	1,816,040	833,402	9,280,718
Public Housing	359,488	-	243,360	-	116,128
	1,512,675,607	70,295,000	143,437,553	72,775,000	1,366,758,054
Business-Type Activities/Enterprise Funds:					
Solid Waste Activities:					
General County	2,447	-	2,447	-	-
	2,447	-	2,447	-	-
Total	$ 1,512,678,054	$ 70,295,000	$ 143,440,000	$ 72,775,000	$ 1,366,758,054

General obligation bond debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	General Obligation Bond Requirements		
	Principal	Interest	Total
2009	$ 120,196,683	$ 75,426,691	$ 195,623,374
2010	120,787,086	66,630,352	187,417,438
2011	117,639,285	55,835,102	173,474,387
2012	112,930,000	47,377,656	160,307,656
2013	109,830,000	42,045,175	151,875,175
2014-2018	445,785,000	135,463,438	581,248,438
2019-2023	261,860,000	51,331,788	313,191,788
2024-2027	77,730,000	8,088,187	85,818,187
Total	$ 1,366,758,054	$ 482,198,389	$1,848,956,443

Article 25A, Section 5(P), of the Annotated Code of Maryland, authorizes borrowing of funds and issuance of bonds to a maximum of 6 percent of the assessable base of real property and 15 percent of the assessable base of personal property and operating real property. The legal debt margin as of June 30, 2008, is $7,367,210,188.

General obligation bonds authorized and unissued as of June 30, 2008, are as follows:

Purpose	Authority Chapter	Authority Act	Authority Amount	Amount Unissued
General County, Parks, and Consolidated Fire Tax District	17	2003	$ 63,600,000	$ 32,590,000
	18	2004	31,200,000	31,200,000
	19	2005	44,100,000	44,100,000
	43	2006	92,000,000	92,000,000
	12	2007	51,300,000	51,300,000
			282,200,000	251,190,000
Roads and Storm Drainage	18	2004	97,500,000	39,440,000
	19	2005	53,500,000	53,500,000
	43	2006	66,700,000	66,700,000
	12	2007	45,800,000	45,800,000
			263,500,000	205,440,000
Public Schools and Community College	19	2005	131,100,000	71,268,000
	43	2006	157,100,000	157,100,000
	12	2007	118,900,000	118,900,000
			407,100,000	347,268,000
Mass Transit	17	2001	6,700,000	5,205,000
	21	2002	1,600,000	1,600,000
	17	2003	900,000	900,000
	12	2007	2,400,000	2,400,000
			11,600,000	10,105,000
Public Housing	17	1981	2,650,000	2,590,000
	13	1982	995,000	995,000
	8	1983	230,000	230,000
	20	1985	900,000	900,000
	13	1986	855,000	855,000
			5,630,000	5,570,000
Parking Districts:				
Silver Spring	9	1983	2,945,000	2,045,000
	6	1984	1,220,000	1,220,000
			4,165,000	3,265,000
Bethesda	19	1981	7,325,000	3,040,000
	14	1982	775,000	775,000
	10	1983	1,050,000	1,050,000
			9,150,000	4,865,000
Total Parking Districts			13,315,000	8,130,000
Total General Obligation Bonds			$983,345,000	$ 827,703,000

Bond authority and related amounts unissued, presented above, include amounts related to variable rate demand obligations (see Note III-F2). In addition to this bond authority, the County has authority under the provisions of Section 56-13 of the 1994 Montgomery County Code, as amended, to issue County bonds within statutory debt limits to finance approved urban renewal projects.

2) Variable Rate Demand Obligations

On June 7, 2006, the County for the first time issued variable rate demand obligations (VRDOs), in the amount of $100 million. These obligations will not mature in total until 2026; however, the County is required by the Note Order to make annual sinking fund payments to retire one-tenth of the notes each year beginning in 2017.

The interest rate on the obligations, which re-sets daily, is established by the remarketing agents, and is payable on the first business day of each month. Other potential modes for the obligations include a Weekly Mode, a Commercial Paper Mode, a Term Rate Mode or a Fixed Rate Mode. Subject to certain terms and conditions in the Note Order, the County may effect a change in Mode with respect to the obligations. The obligations are subject to optional tender and purchase on the demand of the owners thereof, upon certain terms. All such obligations are general obligations of the County to the payment of which the full faith and credit and unlimited taxing power of the County is irrevocably pledged.

In connection with these obligations, the County entered into a standby note purchase agreement on June 7, 2006 with Dexia Credit Local, acting through its New York Branch. Under the agreement, Dexia is obligated to purchase, through the registrar and paying agent, obligations that are tendered by their owners and have not been remarketed by the remarketing agent. The standby note purchase agreement will expire on June 7, 2011. Any principal advances under the line of credit must be repaid in semi-annual installments over five years after the advance occurs. No amounts were advanced against this agreement. Because the County entered into a financing agreement that ensures the VRDOs can be refinanced on a long-term basis, these obligations are classified as noncurrent liabilities at year-end.

VRDOs outstanding as of June 30, 2008, are as follows:

Dated Date	Maturity	Interest Rate	Originally Issued	Balance June 30, 2008
06/07/06	2017-26	Variable	$ 50,000,000	$ 50,000,000
06/07/06	2017-26	Variable	50,000,000	50,000,000
Total			$ 100,000,000	$ 100,000,000

For budget and bond authority purposes, VRDO activity is reported with general obligation bonds.

Changes in VRDOs during FY08 are as follows:

	Balance July 1, 2007	VRDOs Issued	VRDOs Retired	Balance June 30, 2008
Governmental Activities:				
General County	$ 2,500,000	$ -	$ -	$ 2,500,000
Roads and Storm Drainage	26,000,000	-	-	26,000,000
Parks	1,000,000	-	-	1,000,000
Public Schools	64,000,000	-	-	64,000,000
Community College	4,000,000	-	-	4,000,000
Consolidated Fire Tax District	2,100,000	-	-	2,100,000
Mass Transit	400,000	-	-	400,000
Total	$ 100,000,000	-	$ -	$ 100,000,000

VRDO requirements to maturity are as follows:

Fiscal Year Ending June 30	Variable Rate Demand Obligation Requirements		
	Principal	Interest*	Total
2009	$ -	$ 2,325,000	$ 2,325,000
2010	-	2,325,000	2,325,000
2011	-	2,325,000	2,325,000
2012	-	2,325,000	2,325,000
2013	-	2,325,000	2,325,000
2014-2018	20,000,000	10,927,500	30,927,500
2019-2023	50,000,000	5,812,500	55,812,500
2024-2026	30,000,000	697,500	30,697,500
Total	$ 100,000,000	$ 29,062,500	$ 129,062,500

* Includes interest on VRDOs at estimated rates of 2.95 percent for Series A and 1.70 percent for series B respectively, for the June 7, 2006 issue; the interest rate on the notes is calculated daily and due monthly. The estimated rates used for this calculation were based on the rates at year-end.

3) Revenue Bonds Payable

Revenue bonds are authorized, issued, and outstanding to finance specific projects such as parking garages for the Bethesda and Silver Spring Parking Lot Districts and Solid Waste facilities. Net revenues of Bethesda and Silver Spring Parking Lot Districts including parking fees, fines and dedicated property taxes and net revenues of the Solid Waste Disposal fund are pledged against the timely repayment of principal and interest of the outstanding revenue bonds of the respective funds.

The term of the commitments and approximate amounts of the pledged revenues are as follows:

	Terms of Commitment	Approximate amount of Pledge
Parking Lot Districts:		
Bethesda Parking Lot District	18	$ 50,669,799
Silver Spring Parking Lot District	1	855,938
Solid Waste Disposal Fund:	5	18,854,500
Total		$ 70,380,237

The pledged net revenues recognized during FY08 for the payment of the outstanding principal and interest of the revenue bonds are as follows:

	Net Available Revenue for Debt Service	Debt Service		
		Principal	Interest	Total
Parking Lot District:				
Bethesda Parking Lot District	$ 14,056,552	$ 3,175,000	$ 1,709,435	$ 4,884,435
Silver Spring Parking Lot District	7,685,433	780,000	60,188	840,188
Solid Waste Disposal Fund:	11,491,683	3,160,000	854,450	4,014,450

Revenue bond issues outstanding as of June 30, 2008, are as follows:

	Dated Date	Maturity	Interest Rate	Originally Issued	Balance June 30, 2008	Unamortized Premium/ (Discount)	Unamortized Deferred Difference	Carrying Value June 30, 2008
Parking Revenue Refunding 2002:								
Bethesda Parking Lot District	05/01/02	2003-09	3.00 - 5.00	$ 14,560,000	$ 1,575,000	$ 8,132	$ (16,838)	$ 1,566,294
Silver Spring Parking Lot District	05/01/02	2003-09	3.00 - 5.00	12,130,000	825,000	5,633	(9,449)	821,184
Parking Revenue 2002A:								
Bethesda Parking Lot District	06/01/02	2003-21	3.00 - 4.75	26,000,000	19,770,000	(14,090)	-	19,755,910
Solid Waste Refunding 2003A	04/03/03	2004-13	3.00 - 5.00	31,075,000	16,600,000	396,590	(434,183)	16,562,407
Parking Revenue 2005:								
Bethesda Parking Lot District	08/31/05	2007-25	3.62 - 5.00	16,495,000	15,915,000	102,387	-	16,017,387
Total				$ 100,260,000	$ 54,685,000	$ 498,652	$ (460,470)	$ 54,723,182

Changes in revenue bond principal during FY08 are as follows:

	Balance July 1, 2007	Bonds Issued	Bonds Retired	Balance June 30, 2008
Bethesda Parking Lot District	$ 40,435,000	$ -	$ 3,175,000	$ 37,260,000
Silver Spring Parking Lot District	1,605,000	-	780,000	825,000
Solid Waste Disposal	19,760,000	-	3,160,000	16,600,000
Total	$ 61,800,000	$ -	$ 7,115,000	$ 54,685,000

Revenue bond debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Bethesda Parking Lot District		Silver Spring Parking Lot District	
	Principal	Interest	Principal	Interest
2009	$ 3,340,000	$ 1,566,585	$ 825,000	$ 30,938
2010	1,840,000	1,429,335	-	-
2011	1,915,000	1,355,235	-	-
2012	1,995,000	1,278,135	-	-
2013	2,085,000	1,194,010	-	-
2014-2018	11,910,000	4,566,886	-	-
2019-2023	10,660,000	1,795,916	-	-
2024-2026	3,515,000	223,697	-	-
Total	$37,260,000	$ 13,409,799	$ 825,000	$ 30,938

Fiscal Year Ending June 30	Solid Waste Disposal		Total Revenue Bond Requirements		
	Principal	Interest	Principal	Interest	Total
2009	$ 3,255,000	$ 751,750	$ 7,420,000	$ 2,349,273	$ 9,769,273
2010	3,420,000	589,000	5,260,000	2,018,335	7,278,335
2011	3,550,000	460,750	5,465,000	1,815,985	7,280,985
2012	3,690,000	318,750	5,685,000	1,596,885	7,281,885
2013	2,685,000	134,250	4,770,000	1,328,260	6,098,260
2014-2018	-	-	11,910,000	4,566,886	16,476,886
2019-2023	-	-	10,660,000	1,795,916	12,455,916
2024-2026	-	-	3,515,000	223,697	3,738,697
Total	$16,600,000	$ 2,254,500	$ 54,685,000	$ 15,695,237	$ 70,380,237

Revenue bonds authorized and unissued as of June 30, 2008, are as follows:

Purpose	Resolution Number	Year	Amount Authorized	Amount Unissued
Parking Lot Districts	11-1383	1989	$ 51,163,000	$ 25,593,000
Parking Lot Districts	14-921	2001	35,000,000	9,000,000
Solid Waste Disposal	12-1010	1993	56,935,000	6,255,000
Total			$143,098,000	$ 40,848,000

Restricted assets related to these revenue bonds, classified as "Investments" or "Equity in Pooled Cash and Investments" for statement of net asset purposes, include the following:

Purpose	Bethesda Parking Lot District	Silver Spring Parking Lot District	Solid Waste Disposal
Operation and Maintenance Account - Available to pay current expenses	$ 1,202,653	$ 1,666,014	$ -
Debt Service Account - Used to pay debt service on bonds	410,153	71,328	-
Debt Service Reserve Account - (including accrued interest) - Available to pay debt service on bonds if there is insufficient money available	1,433,069	-	3,715,126
Renewal and Renovation Account - Available for payment of renewals, replacements, renovations, and unusual and extraordinary repairs	1,500,000	1,500,000	3,924,521
Rate Covenant Cash Reserve - Available to fund operating activities for a minimum of three months	-	-	22,521,773
Rate Stabilization Account - In case of short-term extraordinary expenses	-	-	3,615,470
Total	$ 4,545,875	$ 3,237,342	$ 33,776,890

In lieu of Debt Service Reserve Accounts, the 2002 Series Parking Refunding Bonds and the 2002 Series A Parking Revenue Bonds are being secured with a municipal bond insurance policy. The County is in compliance with all significant financial bond covenants.

4) Bond Anticipation Notes Payable

Commercial paper bond anticipation notes (BANs) are authorized, issued, and outstanding as financing sources for capital construction and improvements. Changes in BANs during FY08 are as follows:

	Balance July 1, 2007	BANs Issued	BANs Retired	Balance June 30, 2008
BAN Series 2002-K	$ 150,000,000	$ -	$ -	$ 150,000,000
BAN Series 2002-L	-	150,000,000	-	150,000,000
Total	$ 150,000,000	$ 150,000,000	$ -	$ 300,000,000

The interest rate changes based on market conditions; during FY08, the rate of interest varied from .90 to 3.78 percent. Interest earned on BAN proceeds totaled $5,068,687 during FY08, which was accounted for in the Debt Service Fund.

BANs totaling $150 million were issued during FY08 at varying maturities to a maximum of 270 days, under a program whose authority was adopted on June 11, 2002, and was amended on July 16, 2002, July 29, 2003, July 27, 2004, July 26, 2005, November 30, 2006 and September 18, 2007, to consolidate additional authority to borrow money and incur indebtedness. The County reissued the notes upon maturity and will continue to do so, until they are replaced with long-term bonds. The County will issue long-term bonds in FY09, and intends to use the proceeds for capital construction and improvements. In connection with these BANs, the County entered into a line of credit agreement on June 15, 2005, with Fortis Bank S.A./N.V., acting through its Connecticut branch, under which the County may borrow, on a revolving basis, up to $300 million to pay the principal on the notes, and up to $22,191,781 to pay the interest. Any principal advances under the line of credit must be repaid in semi-annual installments over five years after the advance occurs. No amounts were advanced against this line of credit. Because the County entered into a financing agreement that ensures the BANs can be refinanced on a long-term basis, these BANs are classified as noncurrent liabilities at year-end.

During FY08, the County passed Resolution No. 16-298 dated September 18, 2007 to increase the County's authority to issue BANS by $218.4 million. Cumulative BANs authorized and unissued as of June 30, 2008, including amounts authorized and unissued from prior years, is $517,303,000.

5) Certificates of Participation

In October 2007, the County issued Certificates of Participation (certificates) for its Equipment Acquisition Program dated October 24, 2007, in the amount of $33.58 million. The certificates represent proportionate interest in a Conditional Purchase Agreement (CPA) between the County, as purchaser and U.S. Bank National Association, as the seller, for acquisition of certain equipment to be used in the fire and rescue program of the County. The CPA requires the County, as purchaser; to make periodic purchase installments in amounts sufficient to pay the scheduled debt service on the certificates until the County pays the entire price necessary to acquire the equipment, which shall be equal to the amount necessary to pay the principal and interest on all outstanding certificates. The ability of the County, as purchaser, to pay the purchase installments due under the CPA depends upon sufficient funds being appropriated each year by the County Council for such purpose. The County Council is under no obligation to make any appropriation with respect to the CPA. The CPA is not a general obligation of the County and does not constitute an indebtedness of the County within the meaning of any constitutional or statutory limitation or charge against the general credit or taxing powers of the County.

The certificates were issued at interest rates ranging from 4.0 to 5.0 percent and have maturity schedules as follows:

Fiscal Year Ending June 30	Certificates of Participation		
	Principal	Interest	Total
2009	$ 3,105,000	$ 1,448,500	$ 4,553,500
2010	3,220,000	1,322,000	4,542,000
2011	3,335,000	1,174,225	4,509,225
2012	3,455,000	1,004,475	4,459,475
2013	3,590,000	828,350	4,418,350
2014 - 2018	16,875,000	1,804,100	18,679,100
Total	$ 33,580,000	$ 7,581,650	$ 41,161,650

6) Master Lease/Equipment Notes

The County has entered into purchase agreements to provide financing for the acquisition of capital asset equipment. The agreements have terms of two to five years with interest rates identified in the agreements. Arrangements provide that proceeds are to be held by a trustee and disbursed to vendors. If assets are acquired prior to the note agreement, the trustee reimburses the County. The following is a schedule by fiscal year for the agreements as of June 30, 2008:

Fiscal Year Ending June 30	Equipment Notes Requirements Principal	Interest	Total
2009	$ 2,957,730	$ 273,064	$ 3,230,794
2010	2,939,164	162,322	3,101,486
2011	1,905,238	62,931	1,968,169
2012	264,864	5,041	269,905
Total	$ 8,066,996	$ 503,358	$ 8,570,354

7) Lease Revenue Bonds

In June 2002, the County issued Lease Revenue Bonds dated June 1, 2002, in the amount of $37.88 million for its Metrorail garage projects. These bonds were issued to finance the costs of the planning, design, construction, and placing into commercial operation, of garages at the Shady Grove and Grosvenor Metrorail Stations. The County has leased these metrorail garage projects to the Washington Metropolitan Area Transit Authority (WMATA). The bonds are payable from and secured by a pledge of revenues from WMATA's lease payments and certain reserve funds. The approximate amount of the pledge is $52,807,914. WMATA's obligation to make payments under the leases is payable solely from amounts held in a Surcharge Reserve Account which is funded by revenues from a surcharge on the parking facilities. WMATA is not obligated to pay the principal or interest on the bonds. In the event that the County's Reserve Subfund of $3,349,425, included in Capital Projects Fund cash with fiscal agents in the accompanying financial statements, is less that the required amount, the County Executive is obligated to include, in the next subsequent appropriation request to the County Council, a request for sufficient resources to reimburse the Reserve Subfund. The Lease Revenue Bonds are not a debt of the County within the meaning of any constitutional, compact, charter or statutory debt limit or restriction. Neither the faith and credit nor the taxing power of the County is pledged to the payment of the bonds.

The County issued $4,745,000 in lease revenue bonds (Metrorail Garage Projects) on September 1, 2004. The bonds were issued due to certain cost increases incurred since the issuance of the Series 2002 Bonds. The County needed an additional $2,100,000 to complete construction of the Shady Grove Metro Garage and an additional $2,110,000 to complete construction of the Grosvenor Metro Garage. The Series 2004 bonds were delivered on September 28, 2004. The lease has a term of 20 years ending in June 1, 2024. In FY08, pledged revenue of $3,292,339 equals the principal and interest on the lease revenue bonds.

Lease revenue bonds outstanding as of June 30, 2008, are as follows:

	Dated Date	Maturity	Interest Rate	Originally Issued	Balance June 30, 2008	Unamortized Premium	Carrying Value June 30, 2008
Lease Revenue Bonds	06/01/02	2005-24	4.6064%	$ 37,880,000	$ 32,630,000	$ 91,669	$ 32,721,669
Lease Revenue Bonds	09/01/04	2005-24	3.7908%	4,745,000	4,040,000	17,824	4,057,824
Total				$ 42,625,000	$ 36,670,000	$ 109,493	$ 36,779,493

Lease revenue bond debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Lease Revenue Bond Requirements Principal	Interest	Total
2009	$ 1,645,000	$ 1,650,276	$ 3,295,276
2010	1,705,000	1,589,214	3,294,214
2011	1,770,000	1,522,009	3,292,009
2012	1,845,000	1,451,303	3,296,303
2013	1,925,000	1,375,252	3,300,252
2014-2018	10,970,000	5,583,800	16,553,800
2019-2023	13,865,000	2,821,450	16,686,450
2024	2,945,000	144,610	3,089,610
Total	$ 36,670,000	$16,137,914	$52,807,914

8) Taxable Term Loans

During FY04, the County entered into two taxable term loan agreements with U.S. Bank. The first term loan of $4,000,000, which commenced on February 2, 2004, was used to finance the purchase of the Kay property in Germantown, which will be used for development of a biotechnology and information technology business park. The repayment period is 5 years, requiring semi-annual payments of principal and interest at 3.24 percent. The second term loan of $1,332,000, which commenced on March 30, 2004, was used to purchase kitchen and audio-visual equipment to be used in the County’s conference center project which opened in November 2004. The repayment period is 5 years, requiring semi-annual payments of principal and interest at 2.91 percent. On November 15, 2005, the County borrowed an additional $95,432 for conference center furniture which was combined with the first term loan above. All other terms of the first term loan remain unchanged. The principal amount payable at June 30, 2008, under the taxable term loans is $1,155,651.

9) HUD Loan

During 2002, the County Council authorized the Department of Housing and Community Affairs (DHCA) to participate in the HUD Section 108 program for the purpose of acquiring twenty-one units at the Chelsea Tower which provides affordable housing for income qualified persons. On July 16, 2003, the County signed a loan agreement with HUD in the amount of $870,000. The County subsequently received approval from the County Council to disburse and re-loan these funds to HOC. HOC will repay the County, through the Housing Initiative Special Revenue Fund, the principal of $870,000 with interest thereon on a semi-annual basis at 4.59 percent over a twenty-year period, which is consistent with the HUD repayment terms. The principal amount payable at June 30, 2008, for this loan is $698,000.

10) Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2008, was as follows:

Governmental Activities	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Due within one year
Bonds and Notes Payable:					
General obligation bonds	$ 1,512,675,607	$ 70,295,000	$ (216,212,553)	$ 1,366,758,054	$ 120,196,683
Variable rate demand obligations	100,000,000	-	-	100,000,000	-
Bond anticipation notes	150,000,000	150,000,000	-	300,000,000	300,000,000
Lease revenue bonds	38,255,000	-	(1,585,000)	36,670,000	1,645,000
Equipment notes	10,958,965	-	(2,891,969)	8,066,996	2,957,730
Taxable term loans	2,275,328	-	(1,119,677)	1,155,651	1,155,651
HUD loan	741,000	-	(43,000)	698,000	43,000
Subtotal	1,814,905,900	220,295,000	(221,852,199)	1,813,348,701	425,998,064
Add remaining original issue premium	71,004,509	4,500,297	(9,659,351)	65,845,455	-
Less deferred amount on refundings	(25,208,826)	(1,976,270)	3,870,366	(23,314,730)	-
Total Bonds and Notes Payable	1,860,701,583	222,819,027	(227,641,184)	1,855,879,426	425,998,064
Other Liabilities:					
Certificates of participation	-	33,580,000	-	33,580,000	3,105,000
Compensated absences	58,916,381	49,979,053	(43,873,140)	65,022,294	48,766,720
Other postemployment benefits	-	58,598,791	-	58,598,791	-
Capital leases	81,316,156	436,627	(7,280,000)	74,472,783	7,140,000
Total Other Liabilities	140,232,537	142,594,471	(51,153,140)	231,673,868	59,011,720
Governmental Activities Long-Term Liabilities	$ 2,000,934,120	$ 365,413,498	$ (278,794,324)	$ 2,087,553,294	$ 485,009,784
Business-Type Activities					
General Obligation Bonds:					
Solid waste disposal	$ 2,447	$ -	$ (2,447)	$ -	$ -
Revenue Bonds:					
Parking revenue bonds	42,040,000	-	(3,955,000)	38,085,000	4,165,000
Solid waste disposal revenue refunding bonds	19,760,000	-	(3,160,000)	16,600,000	3,255,000
Subtotal	61,802,447	-	(7,117,447)	54,685,000	7,420,000
Add remaining original issue premium	719,392	-	(206,650)	512,742	-
Less remaining original issue discount	(16,052)	-	1,962	(14,090)	-
Less deferred amount on refundings	(697,891)	-	237,421	(460,470)	-
Total General Obligation and Revenue Bonds	61,807,896	-	(7,084,714)	54,723,182	7,420,000
Other Liabilities:					
Compensated absences	4,523,258	389,549	(1,734)	4,911,073	3,683,305
Capital leases	10,033,172	-	(10,033,172)	-	-
Equipment notes	926,268	34,765	(236,238)	724,795	256,919
Landfill closure costs	24,697,923	607,000	(2,571,000)	22,733,923	3,331,000
Claims and judgments	1,200,000	-	(1,200,000)	-	-
Total Other Liabilities	41,380,621	1,031,314	(14,042,144)	28,369,791	7,271,224
Business-Type Activities Long-Term Liabilities	$ 103,188,517	$ 1,031,314	$ (21,126,858)	$ 83,092,973	$ 14,691,224

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year-end, $1,747,377 ($1,310,532 due within one year and $436,845 due in more than one year) of internal service fund compensated absences are included in the above amounts. Also, for the governmental activities, compensated absences and claims and judgments are generally liquidated by the governmental fund to which the liability relates.

11) Conduit Debt Obligations

Conduit debt obligations refer to certain limited-obligation revenue bonds or similar debt instruments issued by the County for the purpose of providing capital financing for a third party that is not part of the County's reporting entity (see Note I-A). From time to time, the County has issued Industrial Revenue Bonds and Economic Development Revenue Bonds for the purposes of financing or refinancing costs of acquiring facilities for third party facility users or of refunding outstanding bonds. Facility users may be individuals, public or private corporations, or other entities. The bonds are secured by the facilities financed and are payable from the revenues or monies to be received by the County under loan agreements with the facility users and from other monies made available to the County for such purpose. The bonds do not constitute a debt or charge against the general credit or taxing powers of the County, the State, or any political subdivision thereof. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of June 30, 2008, there were 35 issues of Industrial Revenue Bonds and Economic Development Revenue Bonds outstanding. Of these, 17 were issued prior to July 1, 1996. The aggregate principal amount payable at June 30, 2008, for bonds issued prior to July 1, 1996, could not be determined; however, their original issue amounts totaled $179,875,000. The principal amount payable at June 30, 2008, for bonds issued after July 1, 1996, totaled $357,120,065.

12) Special Taxing Districts

The County has three development districts: Kingsview Village Center, West Germantown, and Clarksburg Town Center. These development districts were created in accordance with Chapter 14 of the Montgomery County Code, Montgomery County Development District Act enacted in 1994. The creation of these districts allows the County to provide financing, refinancing, or reimbursement for the cost of infrastructure improvements necessary for the development of land in areas with high priority for new development or redevelopment.

In December 1999, the County issued $2.4 million in special obligation bonds for the Kingsview Village Center Development District. Special taxes and assessment were levied beginning in FY01 to repay this debt. In April 2002, the County issued two series of special obligation bonds for the West Germantown Development District. The County issued $11,600,000 of Senior Series 2002A bonds and $4,315,000 of Junior Series 2002B bonds to finance the construction of infrastructure in the development district. Special taxes and assessments were levied beginning in FY03 to repay this debt. Bonds have not yet been issued for the Clarksburg Town Center development district.

The County was petitioned by property owners to form two additional development districts in the Clarksburg area, Clarksburg Village and Clarksburg Skylark (currently marketed as Arora Hills). The County Council is considering formation of these districts.

COMPONENT UNITS

At June 30, 2008, HOC's noncurrent liabilities are comprised of the following:

	Due within one year	Long-Term	Total
Revenue bonds payable	$ 71,376,097	$670,793,024	$ 742,169,121
Capital leases payable	230,696	20,494,053	20,724,749
Notes payable	19,087,004	157,796,102	176,883,106
Total	$ 90,693,797	$849,083,179	$ 939,776,976

HOC revenue bonds, which are significant in relation to the total component unit long-term debt, are outstanding as follows:

Purpose	
Multi-Family Mortgage Purchase Program Fund	$ 410,272,322
Single Family Mortgage Purchase Program Fund	331,896,799
Total	$ 742,169,121

Interest rates on the HOC Multi-Family and Single Family Mortgage Purchase Program Fund bonds ranged from 1.90 to 11.25 percent and 2.0 to 8.5 percent, respectively, as of June 30, 2008.

Pursuant to Section 2-103 of Article 44A of the Annotated Code of Maryland, the County may, by local law, provide its full faith and credit as guarantee of bonds issued by HOC in principal amount not exceeding $50,000,000. Section 20-32 of the Montgomery County Code provides the method by which the County has implemented the guarantee. The debt service requirements by fiscal year for the HOC debt guaranteed by the Primary Government are as follows:

Fiscal Year	Guaranteed Revenue Bond Requirements		
Ending June 30	Principal	Interest	Total
2009	$36,675,000	$ 1,949,817	$38,624,817
2010	340,000	510,490	850,490
2011	355,000	496,023	851,023
2012	370,000	480,555	850,555
2013	385,000	464,058	849,058
2014-2018	405,000	2,128,979	2,533,979
2019-2023	2,880,000	1,731,075	4,611,075
2024-2028	-	1,371,075	1,371,075
2029-2033	5,430,000	137,108	5,567,108
Total	$46,840,000	$ 9,269,180	$56,109,180

The total debt service requirements for HOC revenue bonds, which include the portion guaranteed by the Primary Government (presented above), are as follows:

Fiscal Year	Total Revenue Bond Requirements		
Ending June 30	Principal	Interest	Total
2009	$ 71,376,097	$ 22,805,543	$ 94,181,640
2010	57,839,686	21,005,695	78,845,381
2011	16,226,741	20,613,347	36,840,088
2012	16,898,104	20,169,944	37,068,048
2013	16,654,619	19,720,469	36,375,088
2014-2018	83,027,714	92,104,742	175,132,456
2019-2023	68,177,548	83,451,680	151,629,228
2024-2028	69,016,880	77,672,073	146,688,953
2029-2033	142,798,110	39,451,479	182,249,589
2034-2038	85,289,337	18,948,576	104,237,913
2039-2043	103,435,000	7,549,190	110,984,190
2044-2048	12,030,000	1,117,260	13,147,260
Unamortized Bond Discount	(600,715)	-	(600,715)
Total	$ 742,169,121	$424,609,998	$1,166,779,119

Changes in the HOC revenue bonds during FY08 are as follows:

Purpose	Balance July 1, 2007	Bonds Issued*	Bonds Retired	Balance June 30, 2008
Multi-Family Mortgage Purchase Program Fund	$ 403,739,568	$ 48,502,754	$ 41,970,000	$ 410,272,322
Single Family Mortgage Purchase Program Fund	243,912,203	139,023,412	51,038,816	331,896,799
Total	$ 647,651,771	$ 187,526,166	$ 93,008,816	$ 742,169,121

* Includes accretions and bond discounts.

HOC has issued a number of individual bonds for financing multi-family developments for which HOC has no legal liability for repayment or administration (conduit debt), and accordingly, the bonds are not included in the accompanying financial statements. HOC participates in such issuances in order to increase the availability of affordable housing in the County. The bonds outstanding are summarized below:

Bonds outstanding, July 1, 2007	$ 338,437,152
Issuances during the year	-
Redemptions during the year	(638,247)
Bonds outstanding, June 30, 2008	$ 337,798,905

The County is not liable in any manner for the remaining debt of HOC or any debt of MCPS, MCC, or MCRA. BUPI has no long-term debt.

G) Segment Information

The County has issued revenue bonds to finance activities relating to Solid Waste Disposal operations, including recycling, and the Silver Spring and Bethesda Parking Lot districts (PLDs). The Solid Waste Disposal operations and the Silver Spring and Bethesda PLDs are accounted for within the Solid Waste Activities Fund and the Parking Lot Districts Fund, respectively. However, investors in the revenue bonds rely solely on the revenue generated by the individual activities for repayment. Summary financial information for each activity as of and for the year ended June 30, 2008, is presented below:

Condensed Statements of Net Assets

	Solid Waste Disposal *	Silver Spring PLD	Bethesda PLD
ASSETS			
Current assets	$ 38,611,097	$ 7,447,202	$ 17,651,452
Due from component units	57,102	-	-
Other assets	34,066,955	3,253,670	5,089,540
Capital assets	36,847,745	88,838,181	81,063,295
Total Assets	109,582,899	99,539,053	103,804,287
LIABILITIES			
Current liabilities	12,897,732	2,208,901	4,757,516
Due to other funds	140,139	21,704	26,240
Long-term liabilities	32,892,160	409,786	34,065,993
Total Liabilities	45,930,031	2,640,391	38,849,749
NET ASSETS			
Invested in capital assets, net of related debt	20,285,338	87,476,626	43,723,704
Restricted for debt service	33,776,890	3,237,342	4,545,875
Unrestricted	9,590,640	6,184,694	16,684,959
Total Net Assets	$ 63,652,868	$ 96,898,662	$ 64,954,538

* Includes Solid Waste Leafing

Condensed Statements of Revenues, Expenses, and Changes in Fund Net Assets

	Solid Waste Disposal *	Silver Spring PLD	Bethesda PLD
OPERATING REVENUES (EXPENSES):			
Operating Revenues:			
Charges for services	$ 95,888,830	$ 7,797,914	$ 9,394,586
Licenses and permits	10,500	-	-
Fines and penalties	102,328	2,499,959	4,722,806
Total Operating Revenues (pledged against bonds)	96,001,658	10,297,873	14,117,392
Depreciation	(2,216,556)	4,406,095	4,258,610
Other operating expenses	93,152,027	8,739,438	6,935,238
Operating Income (Loss)	5,066,187	(2,847,660)	2,923,544
NONOPERATING REVENUES (EXPENSES):			
Property taxes	-	5,431,413	5,387,271
Intergovernmental	10,000	-	-
Gain (loss) on disposal of capital assets	2,500	-	-
Investment income	4,010,457	369,525	1,176,231
Interest expense	(922,883)	(106,937)	(1,752,562)
Other revenue	185,983	326,060	310,896
Capital contributions	-	399,231	-
Transfers in	411,000	91,320	114,160
Transfers out	(1,670,150)	(1,948,370)	(6,309,043)
Change in Net Assets	7,093,094	1,714,582	1,850,497
Beginning Net Assets	56,559,774	95,184,080	63,104,041
Ending Net Assets	$ 63,652,868	$ 96,898,662	$ 64,954,538

Condensed Statements of Cash Flows

	Solid Waste Disposal *	Silver Spring PLD	Bethesda PLD
Net Cash Provided (Used) By:			
Operating activities	$ 962,017	$ 1,345,602	$ 6,708,839
Noncapital financing activities	(1,249,150)	3,854,425	(873,146)
Capital and related financing activities	(8,923,826)	(2,506,110)	(7,054,789)
Investing activities	3,771,299	369,525	997,952
Net Increase (Decrease)	(5,439,660)	3,063,442	(221,144)
Beginning Cash and Cash Equivalents	71,578,793	5,635,591	19,747,167
Ending Cash and Cash Equivalents	$ 66,139,133	$ 8,699,033	$ 19,526,023

* Includes Solid Waste Leafing

H) Fund Equity

1) Designated Fund Balances

Designated fund balances include amounts encumbered at year-end, which are reported separately in the accompanying financial statements. Designated fund balances also include committed amounts which have been appropriated as part of the next year's original budget where the source of funds is the fund balance as of the end of the current year, and amounts appropriated but unexpended in the Capital Projects Fund where the source of funds is current receipts in the governmental funds. Such amounts are as follows at June 30, 2008:

	General	Special Revenue	Total
Designated for next year's budget	$ 4,209,100	$ 17,910,093	$ 22,119,193
Designated for transfers to Capital Projects Fund	52,399,930	21,369,233	73,769,163
Total	$ 56,609,030	$ 39,279,326	$ 95,888,356

Designated fund balance does not include the following commitments, which otherwise meet the criteria for designation, but for which unrestricted fund balance is not available to designate:

	Debt Service	Capital Projects	Special Revenue	Total
Encumbrances *	$ 457,858	$ 110,847,993	$10,135,314	$121,441,165
Total	$ 457,858	$ 110,847,993	$10,135,314	$121,441,165

* Encumbrances relating to special revenue funds include $10,135,314 relating to the Grants Fund, where appropriation and spending on Federal and State grants is contingent on receipt of the grant funds. When the expenditure occurs in the subsequent year, revenue will be earned based on the grant agreements, and resources will then be made available.

2) Net Assets Restricted by Enabling Legislation

Net assets restricted by enabling legislation represent legislative restrictions that a party external to the government can compel the government to honor. For the County, such amounts represent primarily accumulated net assets attributed to revenue streams, such as taxes or fees, which are restricted for specified purposes in the County Code. This generally includes Capital Project Fund recordation and impact tax collections on hand for other component unit and municipal governments, ending fund balances of substantially all special revenue funds, and ending unrestricted net assets of the Solid Waste Activities and Parking Lot Districts enterprise funds. Such amounts, which are included with restricted net assets in the government-wide Statement of Net Assets, are as follows at year-end:

Governmental activities	$ 385,294,938
Business-type activities	35,030,644
Total	$ 420,325,582

I) Significant Transactions with Discretely Presented Component Units

1) Operating and Capital Funding

Expenditures incurred for operating and capital funding of discretely presented component units amounted to the following for the year ended June 30, 2008:

	General Fund			Capital	
	Operating	Capital *	Total	Projects	Total
MCPS	$1,451,129,886	$ 4,466,217	$1,455,596,103	$ 187,708,385	$1,643,304,488
MCC	100,334,960	7,443,343	107,778,303	32,870,342	140,648,645
HOC	5,636,660	917,328	6,553,988	-	6,553,988
Total	$1,557,101,506	$ 12,826,888	$1,569,928,394	$ 220,578,727	$1,790,507,121

* Represents current receipt and pay-go funding transferred from the General Fund for component units' use towards their capital projects.

For GAAP financial statement reporting purposes, General Fund expenditures incurred for funding of MCPS and MCC are classified as education expenditures; HOC funding is classified under community development and housing.

2) Other Transactions

BUPI charges for services revenue includes $4,012,956 earned under contracts with the County. For capital leases with MCRA, see Note III-E3. For mortgages receivable due from HOC, see Note III-B2.

NOTE IV. OTHER INFORMATION

A) Risk Management

The County, for itself and certain component units and other governments, maintains two self-insurance internal service funds. County management believes it is more economical to manage its risks internally and set aside assets for claim settlements in these internal service funds.

One fund is maintained for Liability and Property Coverage under which participants share the costs of workers' compensation; comprehensive general; automobile and professional liability (errors and omissions); property coverage including fire and theft; and other selected areas which require coverage. Commercial insurance is purchased for claims in excess of coverage provided by the self-insurance fund and for other risks not covered by the fund. In addition to all funds of the County, participants in this program include MCPS, HOC, MCC, MCRA, BUPI, M-NCPPC, the City of Rockville, the independent fire/rescue corporations, the Bethesda-Chevy Chase Rescue Squad, the Rockville Housing Enterprises, the Town of Somerset, the Village of Martin's Additions, the City of Gaithersburg, the Village of Drummond, the City of Takoma Park, and the Village of Friendship Heights. The liability for claims with respect to all participants transfers to the self-insurance fund, except for M-NCPPC which retains ultimate liability for its own claims.

The second fund is maintained for Employee Health Benefits under which participants share medical, prescription, dental, vision, and life insurance. While the majority of coverage is self-insured, certain fully insured plan options, including health maintenance organizations (HMO's), are offered to participants. WSTC, BUPI, Montgomery Community Television, the Strathmore Hall Foundation, Inc., Arts and Humanities Council of Montgomery County, Montgomery County Volunteer Fire & Rescue Association, and certain employees of the State of Maryland in addition to some of the participants in the Liability and Property Coverage Program, participate in this program.

Both internal service funds use the accrual basis of accounting. Payments to the Liability and Property Coverage Self-Insurance Fund by participants and recognition of the fund's liability for unpaid claims including those incurred but not reported are based on actuarial estimates. For the Employee Health Benefits Fund, charges to participants are based on actuarial estimates. Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported which incorporate incremental claims adjustment expenses incurred only because of the claim, but do not include nonincremental claims adjustment expenses such as internal salary costs. Because actual claims liabilities depend on complex factors such as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. During the year, there were no significant reductions in commercial insurance coverage in the Liability and Property Coverage Self-Insurance Fund from the prior year. For the past three years, no insurance settlements exceeded commercial insurance coverage in either fund.

Changes in the balances of Claims Payable for the self-insurance funds for FY08 and FY07 are as follows:

	Liability and Property Coverage	Employee Health Benefits
Balance July 1, 2006	$79,710,000	$ 9,267,285
Claims and changes in estimates	22,623,168	111,123,106
Claim payments *	(26,834,168)	(109,817,099)
Balance June 30, 2007	75,499,000	10,573,292
Claims and changes in estimates	31,229,416	74,483,466
Claim payments *	(25,897,416)	(78,869,861)
Balance June 30, 2008 **	$80,831,000	$ 6,186,897

* Includes non-monetary settlements.
** Includes incurred but not reported claims of $42,211,000 and $6,186,897 for the Liability and Property Coverage and the Employee Health Benefits Self-Insurance Funds, respectively.

B) Significant Commitments and Contingencies

1) Landfill

The County, in its effort to provide for estimated landfill capping and postclosure maintenance costs, accrues such costs and recognizes those costs as expenses as the landfill is utilized. The October 9, 1991 U.S. Environmental Protection Agency (EPA) rule, "Solid Waste Disposal Criteria," established closure requirements for all municipal solid waste landfills (MSWLFs) that receive waste after October 9, 1991. The County has been accruing closure expenses since FY91 in an attempt to match the costs of closure against the revenues associated with the use of the landfill. GASB Statement No. 18, issued in August 1993, expanded the items considered in the original EPA calculation of closure costs. The expanded requirements include postclosure care for thirty years for landfills accepting refuse materials after October 1991. The Oaks Landfill closed on October 22, 1997, and the County began using out-of-County waste hauling during FY98. At the time the landfill was closed, total cumulative capacity used was 6,990,437 tons. The total closure and postclosure costs are estimated at $59,920,000, which has been fully accrued through June 30, 2008. Of the total amount accrued, $34,615,077 in actual costs has been paid out in prior years, and $2,571,000 was paid in FY08, resulting in a net liability of $22,733,923 at June 30, 2008. The current and non-current portions of the adjusted liability at year-end are estimated at $3,331,000 and $19,402,923 respectively. These costs are subject to change based on cost differences, changes in technology, or applications of laws and regulations. The County plans to use primarily operating cash to pay for these closure and postclosure costs as they are incurred in the future.

2) Litigation

In addition to those suits in which claims for liability are adequately covered by insurance, the County is a defendant in various suits involving tort claims, violations of civil rights, breach of contract, inverse condemnation, and other suits arising in the normal course of business. In the opinion of the County Attorney, the estimated liability of the County in the resolution of these cases will not exceed $600,000. In accordance with general accepted accounting principles, none of this amount has been reflected as a liability in the accompanying financial statements, as the County's liability on none of the claims appears to be probable.

3) Grants, Entitlements, and Shared Revenues

The County participates in a number of Federal and State assisted grant, entitlement, and/or reimbursement programs, principal of which are the Community Development Block Grant, the Head Start Grant, Community Mental Health Grant, and the Medical Assistance Grant. These programs are subject to financial and compliance audits by the grantors or their representatives. The audits of most of these programs for, or including, the year-ended June 30, 2008, have not yet been completed. In accordance with the provisions of the Single Audit Act of 1984 and Circular A-133, issued by the U.S. Office of Management and Budget, the County participates in single audits of federally assisted programs. The amount of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although management does not believe amounts ultimately disallowed, if any, would be material.

4) Other Commitments

County proprietary funds have entered into contract commitments that remain uncompleted as of year-end. The amount of outstanding commitments at June 30, 2008, are as follows:

Enterprise Funds:	Operating	Capital	Inventory	Total
Major Funds:				
Liquor	$ 1,714,929	$ -	$ 5,208,350	$ 6,923,279
Solid Waste Activities:				
Disposal operations	5,624,802	5,349,412	-	10,974,214
Collection operations	81,667	-	-	81,667
Parking Lot Districts:				
Silver Spring	223,530	4,772,615	-	4,996,145
Bethesda	537,282	5,047,962	-	5,585,244
Wheaton	90,879	231,306	-	322,185
Montgomery Hills	9,900	-	-	9,900
Subtotal	8,282,989	15,401,295	5,208,350	28,892,634
Nonmajor Funds:				
Permitting Services	829,999	-	-	829,999
Community Use of Public Facilities	5,838	-	-	5,838
Subtotal	835,837	-	-	835,837
Total Enterprise Funds	9,118,826	15,401,295	5,208,350	29,728,471
Internal Service Funds:				
Motor Pool	4,284,784	-	2,084,705	6,369,489
Central Duplicating	117,706	-	-	117,706
Liability and Property Coverage Self-Insurance	29,500	-	-	29,500
Employee Health Benefits Self-Insurance	4,195,363	-	-	4,195,363
Total Internal Service Funds	8,627,353	-	2,084,705	10,712,058
Total Proprietary Funds	$ 17,746,179	$ 15,401,295	$ 7,293,055	$ 40,440,529

As of June 30, 2008, the County has $190,000 in outstanding offers of loans and/or grants that have been extended to various companies under its Economic Development Fund programs. To help fund such offers, the designated fund balance of the Economic Development Special Revenue Fund at the end of the year is typically reappropriated in the following year.

C) Subsequent Events

On July 22, 2008, the County issued General Obligation Bonds in the amount of $250,000,000 dated July 15, 2008. On July 23, 2008, the County retired commercial paper bond anticipation notes (BANS) totaling $250,000,000; $150,000,000 for 2002 series K and $100,000,000 for 2002 series L. On September 9, 2008, the County issued BANS amounting to $150,000,000. On October 28, 2008, the County Council approved legislation to increase the level of authorized general obligation bond principal to $327,500,000.

D) Joint Ventures

The Primary Government participates in six joint ventures which are not included as part of the reporting entity. The Primary Government does not have a separable financial interest in any of the joint ventures. Therefore, no “Investment in Joint Ventures” is included in the accompanying financial statements.

Audited financial statements are available from each of the six organizations. A general description of each joint venture follows:

<u>Maryland-National Capital Park and Planning Commission (M-NCPPC)</u>

M-NCPPC is a body corporate of the State of Maryland established by the Maryland General Assembly in 1927. M-NCPPC is a bi-county agency. The Board of Commissioners consists of ten members, five each from Montgomery and Prince George’s Counties. The Montgomery County members are appointed by the County Council with the approval of the County Executive. The counties' oversight of M-NCPPC also includes budget approval over their respective shares of the operating and capital budgets. Each county is also required by law to guarantee the general obligation bonds of M-NCPPC issued for its jurisdiction.

At June 30, 2008, M-NCPPC had outstanding notes payable and bonds payable in the amount of $140,420,436, of which $5,630,044 was self-supporting. Of the total amount payable, $16,361,785 represented debt due within one year. Generally, debt of M-NCPPC is payable from its resources; however, the participating counties must guarantee payment of interest and principal on the debt that is not self-supporting. Montgomery County’s contingent liability for non self-supporting M-NCPPC debt at June 30, 2008, is $36,504,822, which represents general obligation bonds outstanding for the Montgomery County jurisdiction at year-end.

<u>Washington Suburban Sanitary Commission (WSSC)</u>

WSSC is a bi-county instrumentality of the State of Maryland created to provide water supply and sewage disposal services for Montgomery and Prince George's Counties. The two participating counties share equal control over WSSC in the selection of the six-member governing body, budgeting authority, and financing responsibility.

At June 30, 2008, WSSC had outstanding notes payable and bonds payable in the amount of $1,347,963,000, of which $1,346,543,000 was self-supporting. Of the total amount payable, $354,819,000 represented debt due within one year. Pursuant to Section 4-101 of Article 29 of the Annotated Code of Maryland, the County must guarantee payment of principal and interest on WSSC bonds, unless WSSC waives such guarantee requirement in accordance with Section 4-103 of Article 29. WSSC has waived such guarantee requirement with respect to all outstanding WSSC bonds. At June 30, 2008, all WSSC debt relating to the County is self-supporting.

<u>Washington Suburban Transit Commission (WSTC)</u>

The Washington Suburban Transit District (WSTD), encompassing Prince George's and Montgomery Counties, Maryland, was chartered by the State of Maryland in 1965 to, among other things, coordinate and participate in the formulation of the transit plan of the Washington Metropolitan Area Transit Authority for WSTD. The WSTD is governed by the WSTC, which is composed of three representatives each from Prince George's and Montgomery Counties and one representative from the Maryland Department of Transportation. One commissioner from each county is appointed by the Governor of the State of Maryland, and the other two commissioners are appointed by the chief executive officer of the organizations they represent. The two participating counties have equal budgetary authority and financial responsibility for WSTC; however, both are required to act in consultation with the State Department of Transportation. WSTC's liabilities are limited to funds payable from the participating counties and the State under outstanding grant agreements and State legislation. Montgomery County made an operating contribution totaling $87,787 to WSTC during FY08. The FY08 WSTC Annual Financial Report was not available when this report was published.

Washington Metropolitan Area Transit Authority (WMATA)

WMATA was created in 1967 by interstate compact among the states of Maryland and Virginia and the District of Columbia. WMATA's primary function is to plan, construct, finance, and operate transit facilities serving the Washington metropolitan area. The governing authority of WMATA is a twelve-member Board of Directors. Maryland, Virginia, and the District of Columbia each appoint four directors. Of Maryland's four directors, two are appointed by the Governor of the State of Maryland, and one each is appointed by the respective county from among its appointees to WSTC. Since WSTC is a joint venture of Montgomery and Prince George's Counties, Montgomery County participates in WMATA through WSTC.

Montgomery County is committed to participation in WMATA and its regional Metro Rail and Metro Bus programs. Pursuant to Section 87-13 of the County Code, the County guarantees its obligations imposed on WSTD by contracts or agreements with WMATA. As a result of State legislation, the State of Maryland is required to fund 100 percent of the County's share of rail and bus operating expenses. In addition, the State is required to fund 100 percent of the annual debt service on revenue bonds issued by WMATA in connection with the construction of the Metro Rail System. The County's share of the cost of construction of the Metro Rail System has been totally assumed by the State. In addition, State legislation mandates, effective in FY00, that the State provides 100 percent of the County's share of WMATA capital equipment replacement costs.

Under State statutes, the State of Maryland is required to cover its related 100 percent of the combined operating deficit of WMATA and County Ride-On operations (that began on or after June 30, 1989) assuming that 40 percent (effective in FY01) of gross operating costs are recovered by revenues.

A summary reflecting WMATA's expenditures incurred for the County's share of WMATA's activities for FY08, which are fully funded by the State and not reflected in the accompanying financial statements, is as follows:

Bus operating subsidy	$ 45,939,165
Rail operating subsidy	27,692,432
Americans with Disabilities Act service	13,841,080
Metrobus and Metrorail capital replacement	28,586,000
Debt service on WMATA revenue bonds	4,867,500
Local bus program	25,432,234
Total	$146,358,411

At June 30, 2008, WMATA had outstanding bonds payable of $153,126,000, of which $26,380,000 represented bonds payable due within one year. All of this debt is payable from resources of WMATA.

Metropolitan Washington Council of Governments (COG)

COG is a multi-governmental regional planning organization in which local governments work together, in partnership with state and federal government agencies, to create and implement solutions to regional issues. The County is a COG member along with other Washington metropolitan area governments. The governing body of COG is a Board of Directors. Each participating governmental unit is allotted a member or members on the Board in accordance with a specified population formula. Budgetary authority rests with the Board. Member dues finance approximately 12 percent of the total funding for COG, with state and Federal grants and private contributions providing the remainder. COG does not utilize debt financing. As a participating government in COG, the County paid FY08 membership dues and fees for services amounting to $700,351.

Northeast Maryland Waste Disposal Authority (NEMWDA)

NEMWDA is a body politic and corporate and a public instrumentality of the State of Maryland. NEMWDA was established to assist the political subdivisions in the Northeast Maryland Region and the private sector in waste management and the development of waste disposal facilities adequate to accommodate the region's requirements for disposal of solid waste. NEMWDA has the following eight member jurisdictions from the State of Maryland: Montgomery County, Baltimore County, Anne Arundel County, Frederick County, Harford County, Howard County, Carroll County, and City of Baltimore. The Maryland Environmental Service is an ex-officio member.

NEMWDA issued bonds in 1993 to fund the construction of the Montgomery County Resource Recovery Project (Project). In April 2003, NEMWDA refinanced $205,078,908 of the 1993 bonds. At June 30, 2008, NEMWDA had outstanding bonds payable in the amount of $214,365,000 of which $20,310,000 represented debt due within one year. Of these amounts, $202,920,000 related to the Project, $18,470,000 of which represented debt due within one year. These bonds are limited obligations of NEMWDA, payable solely from the Project revenues and other sources. Since the Project is owned and operated by NEMWDA, the bonds and related activities are included in the financial statements of NEMWDA.

This Project became operational in August 1995. NEMWDA has entered into a service contract with the County under which the County pays a waste disposal fee calculated in accordance with the agreement. The waste disposal fee is comprised of an amount equal to debt service, facility fees, alternative disposal costs, NEMWDA administrative costs, operating costs, and NEMWDA component revenue. Waste disposal fee expense incurred by the Solid Waste Activities Enterprise Fund during FY08 amounted to $32,224,164.

E) Employee Benefits

1) Deferred Compensation

During FY05, the Montgomery County Council passed legislation enabling the County to establish and maintain one or more additional deferred compensation plans for employees covered by a collective bargaining agreement. County non-represented employees, those County represented employees who elected to participate, and employees who were retired at the time of transfer, continue to participate in the Montgomery County Deferred Compensation Plan administered by the County (the County Plan). County represented employees who did not elect to continue to participate in the

County Plan may participate in the newly created Montgomery County Union Employees Deferred Compensation Plan (the Union Plan) administered by the bargaining units. The purpose of these Plans is to extend to employees deferred compensation plans pursuant to Section 457 of the Internal Revenue Code of 1986, as amended.

During FY99, in accordance with Federal legislation, the assets of the County Plan were placed in trust for the sole benefit of participants and their beneficiaries. Trust responsibilities were assigned to the Board of Investment Trustees (Board). The County Plan therefore is accounted for and included in the accompanying financial statements as a pension and other employee benefit trust fund. The assets of the Union Plan are not included in the accompanying financial statements since the County has no fiduciary or other responsibility for the Union Plan except as required by federal law, including any regulation, ruling, or other guidance issued under law.

Under both Plans, contributions are sent to contracted third party administrator investment vendors for different types of investments as selected by participants. A separate account, which reflects the monies deferred, the investment of the monies, and related investment earnings, is maintained for each participant. Withdrawals are made upon retirement, termination of employment, death, and/or in unforeseeable emergencies. Administrative expenses relating to the County Plan, which are not significant to the County Plan, have been paid by the General Fund.

2) Annual, Sick Leave, and Other Compensated Absences

Employees of the County earn annual, compensatory, and sick leave in varying amounts. Employees who are part of the County Management Leadership Service and participate in the Retirement Savings Plan earn only Paid Time Off (PTO) leave. In the event of termination, employees are reimbursed for accumulated annual, PTO (where applicable), and compensatory leave (up to a limit if applicable). Under the Employees' Retirement System of Montgomery County, covered employees are given credited service toward retirement benefits for accumulated sick leave at retirement. Earned but unused annual, PTO, and compensatory leave is accounted for in the proprietary funds as a liability. The liability for unused annual, PTO, and compensatory leave payable from governmental fund types is reflected only at the government-wide level because it will be paid from future periods' resources. Liabilities for compensated absences have not been recorded in governmental funds since the portion expected to be liquidated with expendable available financial resources has been determined to be immaterial. Earned but unused sick leave is not recorded as a liability because upon termination, sick leave is not paid. Sick leave is paid only in the event of employee illness, at which time the payments will be made from current resources.

3) Group Insurance Benefits

The County provides comprehensive group insurance programs to its employees. These benefits include, but are not limited to, medical, dental, and vision benefits, long-term disability, term life, and accidental death and dismemberment insurance. The cost of each insurance program is shared between the employer and the employees. During FY08, the County and its employees contributed \$83,904,130 and \$22,830,953, respectively. Employees of MCRA, HOC, and BUPI participate in the comprehensive insurance program of the County. Employer contributions totaled \$612,144, \$3,217,623, and \$49,759 for these component units, respectively, for FY08.

F) Pension Plan Obligations

1) Defined Benefit Pension Plan

Plan Description - The Employees' Retirement System of Montgomery County (System) is a cost-sharing multiple-employer defined benefit pension plan sponsored by the County. Other agencies and political subdivisions have the right to elect participation. The Board of Investment Trustees (Board) has the exclusive authority to manage the assets of the System. The Board consists of thirteen trustees and functions as part of the County. A publicly available annual report that includes financial statements and required supplementary information for the System, the Defined Contribution Plan (see Note IV-F2), and the Deferred Compensation Plan (see Note IV-E1), can be accessed on the County's website at http://www.montgomerycountymd.gov/bit, or can be obtained by writing the Board of Investment Trustees, Montgomery County Government, 101 Monroe Street, Rockville, Maryland 20850.

This Plan is closed to employees hired on or after October 1, 1994, except public safety bargaining unit employees. Substantially all employees hired prior to October 1, 1994, of the County, MCRA, HOC, the independent fire/rescue corporations, the Town of Chevy Chase, the Strathmore Hall Foundation, Inc., WSTC, Montgomery County Employees Federal Credit Union, certain employees of the State Department of Assessments and Taxation, and the District Court of Maryland are provided retirement benefits under the System. The System, established under Section 33 of Montgomery County Code, 2001, as amended, is a contributory plan with employees contributing a percentage of their base annual salary, depending on their group classification which determines retirement eligibility.

Benefit provisions are established under the Montgomery County Code beginning with Section 33-35. All benefits vest at five years of service. There are different retirement groups and retirement membership classes within the System. Members enrolled before July 1, 1978, belong to either the optional non-integrated group or the optional integrated group. Members enrolled on or after July 1, 1978, belong to the mandatory integrated group. Within the groups are different retirement membership classes. The retirement class assigned depends upon the job classification of the member (i.e., non public safety, police, fire, sheriffs and correctional staff). Normal and early retirement eligibility, the formula for determining the amount of benefit, and the cost of living adjustment varies depending upon the retirement group and retirement membership class. Normal retirement is a percentage of earnings multiplied by years of credited service. Earnings for optional non-integrated group members and optional integrated group members is defined as the high 12 months and for mandatory integrated group members, the high 36 months. The percentage of earnings, the maximum years of credited service and the cost of living adjustment varies depending upon the retirement membership class and group.

Members who retire early receive normal retirement benefits reduced by a minimum of 2 percent to a maximum of 60 percent depending on the number of years early retirement precedes normal retirement. Disability benefits are contingent upon service-connected or nonservice-connected occurrences and total or partial permanent disablement. Death benefits are contingent upon service-connected or nonservice-connected occurrences. Effective July 1, 1989, when a member terminates employment before his retirement date and after completion of five years of credited service, he may elect to leave his member contributions in the System and receive a pension upon reaching his normal retirement date, based on the amount of his normal retirement pension that has accrued to the date of termination. Vested benefits and eligibility requirements are described under Section 33-45 of the Montgomery County Code of 2001, as amended. A member who terminates employment prior to five years of credited service is refunded his accumulated contributions with interest.

Deferred Retirement Option (DROP) Plans, established in FY00, allow any employee who is a member of a specified membership class or bargaining unit, and who meets certain eligibility requirements, to elect to "retire" but continue to work for a specified time period, during which pension payments are deferred. When the member's participation in the DROP Plan ends, the member must stop working for the County, draw a pension benefit based on the member's credited service and earnings as of the date that the member began to participate in the DROP Plan, and receive the value of the DROP Plan payoff.

Funding Policy - Required employee contribution rates varying from 4 to 8.5 percent of regular earnings are fixed and specified under Section 33-39 (a) of the Montgomery County Code of 2001, as amended. The County and each participating agency are required to contribute the remaining amounts necessary to fund the System, using the actuarial basis as specified in Section 33-40 of the Montgomery County Code of 2001, as amended. Under the current procedures, an actuarial valuation is performed to determine the employer contribution rate for the System. The contribution rate developed is a percentage of active member payroll. The dollar amount of each year's employer contribution is determined by applying the contribution rate to the actual payroll for each year. Funding of the System during the period is the sum of the normal costs and amortization of the unfunded accrued liability over a forty-year period.

Annual Pension Cost and Net Pension Obligation - The annual required contributions (ARC) for FY08 were based on an actuarial valuation as of June 30, 2006, the latest valuation available on the date the County Council was required to approve the appropriation resolution. The ARC, or annual pension cost (APC), were the same as contributions actually made.

The APC and the net pension obligation (NPO) of the County and the participating agencies and political subdivisions for FY08 were as follows:

Fiscal Year	APC	Percentage of APC Contributed	NPO
2006	$ 88,184,159	100 %	$ -
2007	109,436,001	100	-
2008	117,686,375	100	-

Allocated Insurance Contract - On August 1, 1986, the County entered into an agreement with Aetna Life Insurance Company (Aetna) wherein Aetna accepted future responsibility for monthly payments to all members retired prior to January 1, 1986, in exchange for a lump sum payment. The County is liable for cost of living increases effective January 1, 1986, and later. The transactions related to this agreement have not been recognized in the System's financial statements.

2) **Defined Contribution Plan**

Plan Description - Employees' Retirement Savings Plan (Plan) is a cost-sharing multiple-employer defined contribution plan established by the County under Section 33-114 of the County Code. Other agencies or political subdivisions have the right to elect participation. All non-public safety and certain public safety employees not represented by a collective bargaining agreement and hired on or after October 1, 1994, are covered under this Plan. In addition to the County, other participant agencies include MCRA, HOC, the independent fire/rescue corporations, the Town of Chevy Chase, the Strathmore Hall Foundation, Inc., WSTC, and Montgomery County Federal Credit Union. Employees covered under the defined benefit plan may make an irrevocable decision to move into this Plan, provided they are unrepresented employees, or represented by a collective bargaining agreement that allows for participation in this Plan.

Under this Plan, employees contribute 3 percent of regular earnings up to Social Security wage base and 6 percent above Social Security wage base. The employer contributes 6 percent and 10 percent of regular earnings for non-public safety and public safety employees, respectively. The employee and employer contribution rates are established under Section 33-116 and 33-117 of the County Code, respectively. Employee contributions are always vested under this Plan and employer contributions are vested after 3 years of service or upon death, disability, or retirement age of the employee. Members are fully vested upon reaching normal retirement age (62) regardless of years of service. At separation, a participant's benefit is determined based upon the account balance which includes contributions and investment gains or losses. The Board of Investment Trustees monitors the Plan and offers investment options to the participating employees. Required employer and employee contributions to this Plan for FY08 were $13,983,208 and $8,118,397, respectively. In accordance with IRS 457 regulations and the County Code, $400,000 in accumulated revenue from forfeitures was used to reduce employer contributions to $13,583,208 for FY08.

3) **Other**

The County contributed $890,578 during FY08 for pension costs for a limited number of employees/retirees who elected to remain in the State plan. This amount includes the current service costs plus an amount sufficient to amortize the prior service cost over a forty-year period ending June 30, 2020.

4) **Length of Service Award Program (LOSAP)**

Under Section 21-21 of the Montgomery County Code, the County has established a Length of Service Award Program (LOSAP) for the County's Department of Fire and Rescue Service volunteers who meet certain age and service criteria. Benefit expenditures amounting to $1,103,256 in FY08 also include disability and survivor annuities and lump-sum death benefits, and are reported in the Fire Tax District Special Revenue Fund on a "pay-as-you-go" basis. There were 463 recipients comprising former volunteers and their beneficiaries at the end of FY08. Based on the latest available valuation, the unfunded actuarial accrued liability for the LOSAP plan is $20,740,159.

G) Other Postemployment Benefits (OPEB)

Plan Description – During FY08, the Montgomery County Council enacted legislation (Bill No. 28-07) to establish a new trust effective July 1, 2007 to fund certain County retiree benefit plans. The Retiree Health Benefits Trust (Retiree Trust) is a cost-sharing multiple-employer defined benefit healthcare plan sponsored by the County. Other agencies and political subdivisions have the right to elect participation. The Board of Investment Trustees (Board) has the exclusive authority to manage the assets of the Retiree Trust. The Board consists of thirteen trustees and functions as part of the County. Separate financial statements are not issued for the Retiree Trust.

Substantially all retirees of the County, MCRA, HOC, the independent fire/rescue corporations, and WSTC, and certain retirees of the State Department of Assessments and Taxation, are provided postemployment benefits such as medical, life, dental, vision, and prescription coverage under the Montgomery County Group Insurance Plan (Plan). Retirees may also elect coverage for their eligible dependents. A member of the Employees' Retirement System of Montgomery County, who retires under a normal, early, disability or discontinued service retirement, is eligible for group insurance benefits under the Plan. However, the member is not eligible for group insurance benefits if the member leaves County service prior to retirement eligibility with a deferred vested benefit payable upon member's retirement date. A member of the Employees' Retirement Savings Plan is eligible for group insurance upon separation from service based upon the member's age and credited service at the time of separation. Postemployment benefit provisions and eligibility requirements for retirees are described under the Montgomery County Group Insurance Summary Plan Description.

Plan membership at June 30, 2007 consisted of the following:

Retirees and beneficiaries receiving benefits	6,184
Active plan members	9,700
Total	15,884

Condensed FY08 financial statements for the Retiree Health Benefits Trust are as follows:

Condensed Statement of Fiduciary Net Assets

ASSETS	
Cash and investments	$ 13,699,692
Other assets	3,479,435
Total Assets	17,179,127
LIABILITIES	
Claims payable	3,469,435
Other liabilities	135
Total Liabilities	3,469,570
NET ASSETS:	
Held in trust for other postemployment benefits	$ 13,709,557

Condensed Statement of Changes in Fiduciary Net Assets

ADDITIONS	
Contributions	$ 56,230,334
Net investment income	135,383
Total Additions, net	56,365,717
DEDUCTIONS	
Benefits	40,771,902
Administrative	1,884,258
Total Deductions	42,656,160
Change in Net Assets	13,709,557
Beginning Net Assets	-
Ending Net Assets	$ 13,709,557

Contributions – The County Council has the authority to establish and amend contribution requirements of the plan members and the County. The Plan is a contributory plan in which the County and the retired members and beneficiaries contribute, based on an actuarial valuation, certain amounts toward the current cost of healthcare benefits. During FY08, plan members and beneficiaries receiving benefits contributed $12,509,125 (approximately 30 percent of current contributions). The County and other contributing entities contributed $43,721,209, including $29,793,209 (approximately 70 percent of current contributions) for current premiums, claims and administrative expenses, and $13,928,000 toward prefunding future benefits.

Funding Status and Funding Progress – As of June 30, 2007, the most recent actuarial valuation, the actuarial accrued liability (AAL) was $1,176,000,000 and there were no actuarial plan assets, therefore the unfunded AAL (UAAL) was $1,176,000,000. The annual covered payroll of active employees covered by the Plan was $602,006,000 and the ratio of the UAAL to covered payroll was 195.3 percent.

The actuarial valuation of the Plan involves estimates of the value of reported amounts and assumptions about the probability of events far into the future. The actuarially determined amounts regarding the funded status of the Plan and the annual required contributions (ARC) of the County and other participating agencies are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

During FY07, the County Council adopted Resolution No. 16-87, expressing its intent to phase in to full funding of the difference between pay-as-you-go contributions and the ARC over five years. The prefunding contributions reflected in the accompanying financial statements represent the first year of that five year phase in. During May 2008, the Council adopted Resolution No. 16-555, amending the phase in period to a total of eight years.

Annual OPEB Cost and Net OPEB Obligation - The ARC, or annual OPEB cost (AOC), for FY08 was based on an actuarial valuation as of June 30, 2006, the latest valuation available on the date the County Council was required to approve the FY08 budget.

The AOC and the net OPEB obligation (NOPEBO) of the County as of June 30, 2008 were as follows:

ARC/AOC	$ 102,320,000
Contributions	43,721,209
NOPEBO	$ 58,598,791

The percentage of AOC contributed in FY08 was 42.7 percent.

Actuarial Methods and Assumptions – The calculations of projected benefits are based on the terms of the Plan in effect at the time of valuation and on the pattern of sharing costs between the employer and plan members to that point. The actuarial calculations reflect a long-term perspective and actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in the actuarial accrued liability and the actuarial value of assets.

Actuarial assumptions used in the actuarial valuation were:

Valuation date	June 30, 2007
Actuarial method	Projected unit credit
Amortization method	Level percentage of projected payroll
Amortization period	30 years
Investment rate of return	8.0%
Salary scale	4.25%
Mortality	RP 2000 projected 10 years, separate tables for males and females
Health care cost trend rates:	(initial, ultimate)
Medical (excluding Indemnity plan) pre-65	12.0%, 5.0%
Medical (excluding Indemnity plan) post-65	10.0%, 5.0%
Medical (Indemnity plan)	13.0%, 5.0%
Prescription drugs	12.0%, 5.0%
Dental	6.5%, 4.5%

REQUIRED SUPPLEMENTARY INFORMATION

RETIREE HEALTH BENEFITS TRUST

The following required supplementary information is intended to help users assess the system's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons among employers.

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a percentage of Covered Payroll ((b-a)/c)
6/30/2007	$ -	$ 1,176,000,000	$1,176,000,000	0 %	$ 602,006,000	195.3 %

Analysis of the dollar amounts of plan net assets, actuarial accrued liability, and unfunded actuarial liability in isolation can be misleading. Expressing the assets as a percentage of the actuarial accrued liability provides one indication of the system's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the system. Trends in the unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the system's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the system.

SCHEDULE OF EMPLOYER AND OTHER CONTRIBUTING ENTITIES CONTRIBUTIONS

		Percentage Contributed		
Fiscal Year Ended June 30	Annual Required Contributions	Employers	Other Contributing Entities	Net OPEB Obligation
2008	$ 102,320,000	38.6 %	4.1 %	$ 58,598,791

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(Continued)

I N D E X, Concluded

* POEB = Pension and Other Employee Benefits